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CAN OUR INDUSTRIAL SYSTEM SURVIVE?

BEING A TREATISE ON

THE EUROPEAN FINANCIAL CRISIS AS INDICATED BY THE PRESENT RATES OF EXCHANGE

BY

J. S. M. WARD, B.A., F.R.Econ.S., F.S.S.

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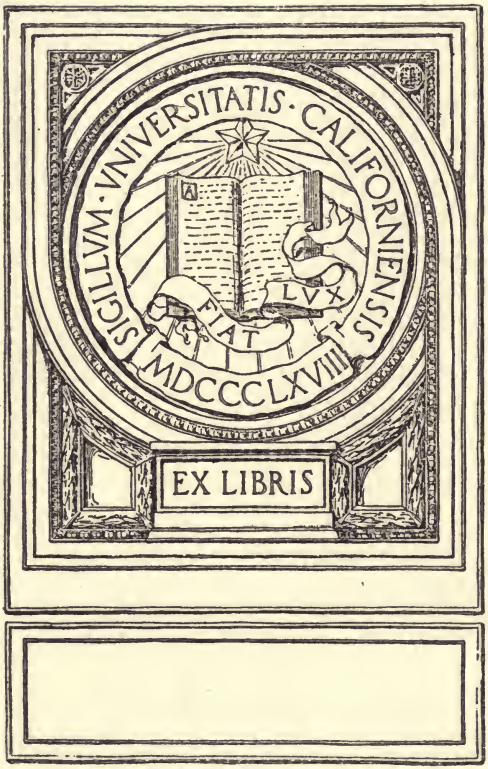
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INTRODUCTION

As none of our leaders appear to see where we are drifting, or, if they see it, dare not speak out, I have felt it my duty to try to arouse the nation from its apathy. Briefly, our whole industrial system is shaking, and unless something is done promptly to save it the whole edifice will collapse. What that will entail in human suffering is almost too terrible to contemplate; but, unless we face the possibility, nothing will be done to avert the catastrophe.

In these pages I have explained how it was that Europe, in pre-war days, maintained a population which it could not have fed from its own natural resources. I have shown how the war shattered that system, and that since peace was made things have been allowed to drift towards a complete collapse. I point out that Russia has already gone, Poland is going, and practically all the Continent is threatened with a like fate. Yet all the while leaders continue to hinder her recovery by continuing to violate the very economic laws by which she lives.

No doubt I shall be called a Jeremiah; but, after all, Jeremiah was right. His warning fell on deaf ears—had it been heeded his people might have been saved. So to-day there is still time to save Great Britain. It may even yet be possible to save Europe; but if we continue to behave as we have done, during the last two years, for another

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three, nothing can save Europe, and its civilisation, like its industrial system, will follow the same path as that taken by Russia; for an economic blockade is closing round the Continent, through which nothing will be able to pass to the relief of its starving millions.

I wish to record my thanks to Mr N. E. Crump for his assistance in the earlier part of this treatise.

J. S. M. WARD.

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CAN OUR INDUSTRIAL SYSTEM SURVIVE?

I

RATES OF EXCHANGE ON LONDON

Country.	Parity.	5th December 1918.		20th November 1920.	
		Rate (value of £).	Depreciation of foreign currency %.	Rate (value of £).	Depreciation of foreign currency %.
U.S.A. . .	$4·8665	4·770	+ 2·0	3·470	+40·2
Canada . .	$4·8665	4·822	+ 0·1	3·900	+24·8
Switzerland	fr. 25·225	23·375	+ 7·9	22·19	+13·7
Holland . .	fl. 12·11	11·215	+ 8·0	11·39	+ 6·3
Japan . .	Yen 9·80	8·972	+ 9·2	6·857	+42·9
Argentine .	Pesos 5·040	4·655	+ 8·3	4·582	+10·0
Uruguay .	Pesos 4·620	4·051	+14·0	4·518	+ 2·3
Peru . . .	£1	·930	+ 7·2	·835	+19·8
Spain . .	Ptas. 25·225	23·945	+ 5·3	26·40	+ 4·5
Sweden . .	Kr. 18·15	16·555	+ 9·6	18·15	par
India . .	*	12·02	+24·8 *	12·47	−19·8 *
Brazil . .	Milreis 15·00	17·24	−13·0	21·22	−29·3
France . .	fr. 25·225	25·98	− 2·9	57·57	−56·2
Belgium .	fr. 25·225	27·50 ‡	− 8·3 ‡	54·35	−53·6
Italy . .	lit. 25·225	30·31	−16·8	92·00	−72·6
Greece . .	di. 25·00	24·82	+ 0·7	38·75	−35·5
Finland . .	Fmks. 25·225	45·17 ‡	−44·2 ‡	162·50	−84·5
Portugal. .	Esc. 4·53	7·385	−38·7	32·00	−85·8
Germany .	Mks. 20·43	7·275‡	−71·9 ‡	253·00	−91·9
Austria . .	Kr. 24·02	975·00 ‡	−97·5 ‡	1137·50	−97·9
Czecho-Slovakia .	Kr. 24·02	337·00 ‡	−92·9 ‡	280·00	−91·4
Poland . .	P.Mks. 20·43	520·00 ‡	−96·1 ‡	1487·50	−98·6
Rumania .	lei 25·225	240·00 ‡	−89·5 ‡	252·50	−90·0
Norway . .	Kr. 18·15	17·075	+ 6·3	25·90	−29·9
Denmark .	Kr. 18·15	17·775	+ 2·1	25·75	−29·5
Chile . .	pes 13·33	20·46	−34·8	25·10	−46·9
Hong Kong	†	5·963	†	5·378	†
China . .	†	3·871	†	4·025	†

* Till Feb. 1, 1920, parity was 15 rupees to £1. Since then it is 10 rupees to the *gold sovereign*.
† These currencies are on a silver basis, and hence no definite parity can be assigned to them.
‡ These rates are the first post-war rates quoted. The dates at which quotations began were :—

Belgium . .	Dec. 20, 1918.	Austria . . .	Dec. 29, 1919.
Greece . . .	Jan. 1919.	Czecho-Slovakia .	Feb. 10, 1920.
Finland . . .	May 9, 1919.	Poland . . .	Feb. 13, 1920.
Germany . .	Aug. 8, 1919.	Rumania . .	Feb. 16, 1920.

This table shows the par of exchange, the rates current on the conclusion of hostilities, and the rates current at the date of writing. It presents in a compact form one of the chief pieces of evidence on which the arguments in this book rest. One or two words of explanation may be advisable.

1. What is the "par of exchange"? It is the common basis of value between two countries. This is measured by the amount of gold in the coins of the respective countries. Thus, as is explained later, one gold sovereign contains as much gold as $4·8665; and if you walk into the Assay Office in New York and lay down a gold sovereign, the officials are bound by law to hand you $4·8665. It is true that there is no actual gold coin in New York of a lower denomination than $10. The figure of $4·8665 is arrived at by a simple sum in proportion. This definition holds for all countries using a gold standard.

2. China, Hong Kong, and (until recently) India use a silver basis for their coinage. Here there is no par of exchange, for the coins of these countries contain a definite weight of silver. Now, the price of silver is continually varying, and by the price of silver we mean the weight of silver we can buy for £1. Hence the value of these currencies, *i.e.* their rate of exchange, varies with the price of silver.

3. As stated at the head of the table, all rates quote the value of £1 sterling in the foreign currencies. Thus a rate of fr. 57·57 for France means that it takes 57·57 francs to purchase £1.

4. The depreciation columns headed "%" show the percentage variation of each rate of exchange above or below par. A figure marked + signifies that the rate is above par, *i.e.* that the English pound is worth less than its par value in the foreign currency. A figure marked − has the opposite significance, *i.e.* that the English pound is above its par value. The actual calculation is made by dividing the current rate into the par of exchange multiplied by 100, and by subtracting 100 from the quotient.

Thus, in the case of France, for 20th November 1920 the percentage variation equals

$$\frac{25{\cdot}225 \times 100}{57{\cdot}57} - 100 = 43{\cdot}8 - 100 = -56{\cdot}2 \text{ per cent.}$$

An analysis of the causes of the variations of these rates from par is made in a subsequent section.

II

OUR INDUSTRIAL SYSTEM IN 1913, AND HOW IT HAD EVOLVED

To realise what the depreciated and fluctuating rates of exchange *mean*, we must first understand the true position in 1913.

In that year our industrial system appeared to be set upon a rock. Even the Socialists, who protested against the soullessness of the capitalistic system, did not, as a rule, contemplate the possibility of its swift destruction. They aimed at commercialising the State, though they disguised the fact by talking about nationalisation. So far as practical politics were concerned, Collectivist Socialism was the only alternative to Capitalism. Guild Socialism was hardly discussed, and few believed it was possible radically to alter the industrial system of the period. It must be emphasised that even the Socialists, for the most part, dreamed not of destroying it, but of using it in the interests of the employees instead of in the interests of the employers. No doubt there were a few who desired to shatter the whole system, but for the most part they were foreigners, usually Russian Nihilists. Their influence in Great Britain was trifling.

So strong was that system that the bulk of the population of Europe behaved as if it had subsisted from time immemorial and was bound to continue for ever. Nevertheless, it was barely 150 years old even in Great Britain, and on the Continent hardly a century. Previous to those dates industry had been organised on what is usually known as the domestic system.

The invention of Kay's flying shuttle was followed in

1767 by Hargreave's spinning-jenny, and that in its turn led to Arkwright's application of water-power to spinning in 1769. Ten years later Crompton invented the spinning-mule ; Cartwright in 1785 patented a power-loom ; and in the same year Watt produced a really serviceable steam engine. Thus, by 1785 power had been substituted for hand labour, and the old-time craftsmen were doomed.

Rapidly the factory system replaced the domestic. In other words, instead of small and independent yeomen farmers who spun or wove the wool off their own sheep in their own farms by hand, there grew up a system whereby men were collected into one building, called a factory, by a capitalist or employer. This capitalist bought the wool, built the factory, installed machinery, and employed workmen to supervise these machines, to whom he paid wages. Henceforth, the man who made the goods had no direct ownership of them. He was a hired servant, liable to dismissal by his master, and gained no direct benefit if his work was above the average.

Henceforth there were two parties in industry often in conflict—capital and labour. Much has been written about the inhumanity of the new system, particularly in its earlier years. Long hours, unhealthy conditions, child slavery, characterise the beginning of the factory system, together with a new spirit of sordid materialism which has covered the north of England with hideous conglomerations of houses.

All this must be acknowledged by every historian and economist ; but, on the other hand, it caused an enormous growth in the population, and an increase in material prosperity throughout the nation. One can argue that the modern " worker " is neither so healthy nor so happy as the domestic weaver in 1700, but one cannot say that he has not considerably more of the amenities of life. There are few working men's houses in towns to-day which have not gas and water laid on, a cinema close by, and trams or trains by which to travel almost at his door. Relatively to the wealthier sections of the community he may or may not be more prosperous, these material benefits may or

may not create happiness, but that they exist at all is due to our industrial system.

But the outstanding result of the system was that Great Britain increased its population from barely eight millions in 1750 to forty-one millions in 1913, excluding Ireland. This growth is despite the fact that we have had many wars all over the world, and have sent millions to settle overseas. In Ireland, where the industrial system has not developed to the same extent, the population has actually declined since 1845.

On the Continent, since 1815, the same process has gone on, and, excluding Russia, we can say that, roughly, the Continent and Great Britain have become great industrial areas, supporting a population out of all proportion to their natural resources. In plain English, not only did Europe not produce enough food to feed itself, but it was also dependent upon extra European countries for large quantities of raw materials. To obtain these essentials Europe exported large quantities of manufactured goods to every corner of the earth, but even these were not sufficient to balance her imports.

The system by which she lived may be subdivided as follows:—

1. With the raw materials bought in 1912 she made finished products and sent them overseas, in exchange for raw materials which she would make up during 1913 into the finished articles she would export in 1914 to buy the raw materials and food she required for the next year. The finished products were more valuable than the raw materials from which they were made, owing to the skill and labour put into them by her people. On this difference Europe lived.

2. But every important European State (excluding Russia) imported considerably more than she exported, and she paid for this difference in several ways. Thus, gradually a portion of the difference between the value of the raw materials and the manufactures had been saved, and this capital invested either in developing home industries or invested overseas in railways, plantations,

mines, etc. The industrial undertakings earned interest. The capital was invested in the true economic sense of the word, and helped to create more wealth. Therefore those who borrowed this capital were able not only to make their own livings, but also to remit large sums as interest to the European shareholders. This interest really came in the form of goods, chiefly food and raw materials.

3. In addition, Europe rendered services to people overseas. Thus, British and Continental vessels carried American goods, and our merchants dealt in the goods of the whole earth, and might even take goods direct from America and sell them to China without bringing them to Europe at all. The bankers and insurance companies were other groups which rendered considerable service to the raw material countries, and naturally were paid for doing so.

Payments for these services likewise came to Europe in the form of goods, and explain why British trade was healthy, though in 1913 we were importing considerably more than we were exporting. Thus, though each particular merchant received his commission in cash, he really received it in the foreign food or other goods he consumed.

This, then, was the industrial position in 1913, and it had grown up so gradually that no one realised its complexity. Its fatal defect was the perfection and delicacy of the machine, which rendered it possible for some madman to wreck it. Kaiser William II. proved to be the madman, who, tearing the sword from the statue of the ancient war god, Odin, plunged it into the machine whereby his people as well as his enemies lived. The population had grown with the system, but it was absolutely dependent on one condition. Europe must possess each year sufficient goods or credit abroad for services rendered to buy the food and raw materials needed next year.

To-day this essential part of the system has vanished amid the flames of war. The effect of this will be explained in a subsequent section, but in case some of my readers do not understand exactly what is meant by exchange, we will consider what it is. To take a simple case:—If a Frenchman, A, exports goods to England, he wants in

exchange francs. The British importer, B, therefore must buy these francs with British sterling. The par rate of exchange has already been explained, and if there is also a Frenchman, C, who, having bought British goods, has got to pay another Englishman, D, in pounds, the process is simple. The francs of A are transferred to C, and the pounds of B to D at par. This process is carried out by the bank, and the way A gets his francs is because B buys them from the bank which has received them from C, who has had to buy sterling to pay D.

This is a simple example of how the system works in normal times, though in reality there was often a perfect chain of currencies involved. Thus, the Frenchman might sell the goods to an Italian, who sold other goods to a German, who sold other articles to America, whence goods were sent to England, which country supplied the original Frenchman with coal to make the next lot of goods he intended to send to Italy. Thus, any break in the circle might upset the whole system. For example, if Italy could not take the Frenchman's goods, and no one else required that type of goods, how could the Frenchman buy his next lot of coal from us, or the Americans send us the goods made out of the parts supplied heretofore by Italy or Germany, who would be unable to send them, being unable to buy the semi-raw material for them which they had been in the habit of getting from France? If, however, there were a dozen Frenchmen who had imported goods from Great Britain, and only one who had sold to us, there would be a huge demand for sterling, and a trifling one for francs; consequently sterling would cost much more in francs.

Money is merely a medium of exchange, and although in 1913 it consisted mainly of gold or silver which had a commodity value, yet that value was only for a luxury article. If too much coin were issued, it was melted down and turned into gold and silver ornaments. If, however, there had been a huge increase in gold supplies, and all of this had been turned into coin and none used for jewellery, then gold would have ceased to have a commodity value;

and have become of little real worth. Indeed, the steady rise in the price of goods during the closing years of the nineteenth century was largely due to the increasing supplies of bullion brought from the earth and put into circulation. In mediæval days 4d. to 6d. per day was a good wage for a skilled man, for money was scarce, and therefore bought large quantities of goods.

The advantage of a gold currency was mainly that there was an automatic check on over-issue. So long as the sovereign cost the British Government a pound to issue there was no temptation to the Government to issue too many sovereigns. If, however, they made a mistake, it could at once be converted into jewellery; but it is important to remember that gold is one of the least necessary things on earth, for you cannot eat gold. On a desert island all the gold in the world will not save you from starving.

If, however, you substitute paper money for gold, the Government is tempted to issue more so as to pay its debts, but it has practically no intrinsic value; in other words, in itself a Bradbury is not as valuable to an American as a piece of note-paper. Unlike a sovereign, he cannot turn it into jewellery, and he only takes it because he can exchange it for British goods.

If for any reason a country can send nothing abroad, its paper money is utterly worthless. On the other hand, if it has plenty of goods to send, and plenty of foreign buyers, its paper money may rise to almost any figure; but as soon as its unit rises above par its products begin to cost the foreigner too much, and he looks round for another supplier. In short, when too many people are bidding for dollars, they rise above par, and the wise importer turns to another country whence less goods are coming, and, consequently, less people are competing for its currency in which to pay for their purchases.

We, therefore, see that in 1913 Europe maintained a population in excess of what it could have fed and clothed solely from its home products. We have realised that she could do this because she exported finished goods, made often from overseas raw materials, to the countries from

which she got these essentials of her industrial system. She supplemented this by rendering other services, and by the interest due on her overseas investments. We find that no matter how it is disguised, international trade is really the bartering of goods and services for other goods or services, and that if you must have certain kinds of goods from overseas, you must pay for them in what that overseas area requires. We found that in practice trade between the various countries really balanced, although Europe appeared to import more than she exported, and, consequently, most exchanges were at or near par, and comparatively stable.

In any particular case where this was not so, it was usually due to political disturbances, or temporary industrial difficulties, which, for a time, restricted exports or imports.

One area we have excepted in using the term Europe. Russia, though possessing considerable industries, was largely a food and raw material exporter, and was paid by Europe for these necessities in finished goods. She was an invaluable counterpoise to the United States, and the price of corn from Russia kept that of the U.S.A. reasonable.

Similarly, any tendency for the dollar to rise unduly owing to large purchases by Europe of her cotton or corn resulted in Europe buying more from Russia and less from the States, with the natural consequence that the dollar would return to normal.

The elimination of Russia is one of the factors which has completed the overthrow of the pre-war balance of trade.

III

OUR FINANCIAL ORGANISATION IN 1913

It has already been explained that, broadly speaking, Europe imported raw materials from America and the East, and paid for them by the export of finished articles, and by rendering services through her shipping, banks, and insurance houses. It remains to explain the working of the machinery by which this was carried out. The exchange has already been described in its simplest form, but in most large transactions bills of exchange were employed, and the system worked as follows:—It is obviously a waste of energy for A in London to send B in New York gold in payment for cotton, and C in New York also to send gold to D in London in payment for, say, a motor car. For if A pays D, while C pays B, no gold need cross the Atlantic in either direction. This was actually the case, and the instrument by which this was done was called the "bill of exchange." B drew a bill on A in London, *i.e.* drew up a signed statement that A owed him money. He sold this to C for hard cash, who sent it to D in payment of his debt. D presented this to A, who paid him hard cash for the bill. Thus A and C paid up, while B and D received cash; and no actual money crossed the Atlantic.

In practice, the system did not work so simply. For B might sell his bill to E, who sent it to discharge a debt he owed to F in Paris. F might send it on to G in Rome, and G in turn might at last use it to pay H in London. Thus it will be seen that these bills of exchange are a kind of international money. Again, B might draw his bill on A, but allow A ninety days to pay in. If he sold it to C,

he would be told that as C had to wait ninety days for his money, C was going to deduct from the price he paid for the bill the interest on his money he would lose during that time. Or C might say that A was going bankrupt, and what was the value of his bill then?

Next we will consider the relation between these bills of exchange and the money of the different countries. We will confine ourselves to those countries that use a gold standard, which means those countries which possess a gold coin. Thus England has a gold sovereign which contains 112·818 grains of pure gold. Thus, when we say an article is worth £1, what we really mean is that we are prepared to exchange for that article 112·818 grains of pure gold. Now the American says that the $10 piece must contain 232·2 grains of pure gold. Thus $4·8665 will, by simple proportion, contain 112·818 grains of gold. Thus the gold in one sovereign is equivalent to the gold in $4·8665, and that is what we mean by saying that the "mint par of exchange" between London and New York is $4·8665 to £1.

Now we can return to our friends, A, B, C, and D. Say A sends B $4866·5 worth of cotton. If he likes, he can make B send him £1000 in gold, which will give A gold representing $4866·5. But this means that B will have to pack up, insure, and ship across the Atlantic 1000 sovereigns, which will involve him in expense. So A draws a bill on B for £1000 and looks about for C, who owes D £1000 for a motor car, and who therefore wants a bill on London to pay D with.

Now, it may be that J in New York has also bought a Rolls-Royce, while K is importing Bass, and L a cargo of shirts from Manchester—and they *all* want a bill on London to pay their debts with. So up goes the price of A's bill. But there comes a point when L says, "Right, sonny, for $24 I can ship over gold dollars to Manchester and pay for my shirts that way. I'll give you $4890·5 for your precious bill, but no more."

This conversation teaches us two lessons. One is that when New York imported more from London than it

exported, a bill for £1000 on London can be sold for more than $4866·5. That is what is meant by saying that the rate of exchange is unfavourable to New York. The second is that there comes a point when it pays the New Yorker to send actual hard cash to London. Thus the rate of exchange, *i.e.* the value of this *sterling* bill, cannot rise above this point. This is known as the gold point. Exactly the same thing happens if London had imported from New York more than it exported. A time would come when it would pay the London importer to ship hard cash rather than buy a bill on New York to pay for his cotton. This point is the other gold point, and in normal times the rate of exchange only moved between these two points.

Now, in the autumn the American crops are harvested and the cotton and wheat is shipped to London. Thus there will be many "cotton" and "grain" bills drawn on London in connection with these American exports. In common parlance, the balance of trade is against England; and we have seen that this means that the New York rate of exchange will be against London, *i.e.* that a bill on New York for $4866·5 will fetch more than £1000 in London. So the British importers start shipping hard cash to New York. This cash is drawn out of the London banks, so the banks immediately start "restricting credit" by raising the rate of interest on their loans. This raises interest rates all round England. For no one is going to invest in speculative 5 per cent. shares when he can get 5 per cent. on money lying safe in the bank. Then the American, the Frenchman, and the Italian say, "Hello, here I have my money only earning 3 per cent. when I can get 5 per cent. on it in England." So he tells his banker to buy English shares, and the banker looks round for a *bill on London* with which he can buy English shares. Thus bills on London are once more in demand, and the rate of exchange recovers. It may even be that gold has to be shipped back to London in order to buy British shares. If so, money in London once more becomes plentiful, and British interest rates fall.

This, briefly, is the cycle. London imports too much, the rate of exchange moves against her, and gold leaves the country. Money becomes tight, and interest rates rise. This attracts foreign capital, the rate of exchange recovers, and gold flows back. Interest rates fall, and British goods are exported. This last makes the rate of exchange move in favour of London. But the foreign capitalist finds he has lost his high interest and sells out his shares, withdrawing his money from London. This arrests the movement of the exchange rate and drives it back to par. And so we are ready for another harvest.

It will be seen that two very important assumptions have been made. One is that each country's imports and exports of goods and services (as explained in the preceding section) for the year balance. The other is that gold is free to move from country to country. If both these conditions were abrogated, the rate of exchange could not be held at the gold point. That is what is happening to-day.

IV

FINANCE AND INDUSTRY DURING THE WAR

THE conditions under which the trade and industry of Europe were carried on have now been described. It remains to state the effect on them of the European war. Firstly, the sale and purchase of bills of exchange was largely in the hands of banks and brokers, who acted as intermediaries between our mythical friends, A, B, C, etc., of the preceding section. When war broke out they held bills on enemy countries which they were unable to collect. At the same time, they had to meet bills from allies and neutrals. So the Government proclaimed a moratorium to give everyone time to turn round in, and also took over the debts owed by enemy countries. They also issued currency notes in the place of gold sovereigns, which they used to form a reserve. In time everything straightened out again, as far as it could be expected to.

As the war went on, the industry of the country was diverted to the achievement of one object—namely, the defeat of the enemy. One by one, factories passed under the Ministry of Munitions, and turned to the manufacture of shells and other instruments of destruction: the effect of this last word is dealt with later. The Government had no time to fix proper prices, so the manufacturer practically fixed his own, and returned 80 per cent. of his excess profits to the Government. This was the real origin of the famous "E.P.D."—to save trouble in fixing prices. Thus E.P.D. in the year 1920 is quite another thing from 1915.

But E.P.D. or no E.P.D., it quickly became obvious

that the Government could not pay for the war out of revenue, and so recourse was had to loans. The first war loans probably tapped the nation's actual savings, and so were economically sound, once you grant that war in itself was economically sound. Loans were also raised in the United States, which was also sound—except that loans mean interest, and interest to another nation means a most objectionable form of " invisible import " or payment for " services rendered." But the loan raised in January 1917 meant a new departure. The Government had already had to pay 6 per cent on their last loan (Exchequer Bonds, 1920), which showed that the savings of the country were beginning to run dry. So this time the Chancellor told the banks to allow their clients to overdraw their accounts in order to buy War Loan. Now, if a bank lends you or me money (for that is the meaning of an overdraft), and then we lend it to the Government, it is easy to see that the banks are lending money indirectly to the Government. And the effect of that will be explained lower down.

Money that is not being raised by loans or taxation is called the floating debt. Before the war the revenue of the country usually came in in a lump at the beginning of the calendar year. The expenditure of the country was spread uniformly over the year. This temporary discrepancy was covered by temporary borrowings on the part of the Government, and this borrowing was called the floating debt. Now, there are two forms of floating debt, both harmless when used to cover a temporary deficiency, but most obnoxious if there is no prospect of the deficiency being temporary. The first is the sale of Treasury Bills, or the raising of short-term loans from people with ready money lying idle. These bills are sold to run for three or six months, and at the end of that period their holders have to be paid up, or persuaded to renew their bills. Now, these bills are largely taken up by the banks. The banks also invested their funds in War Loans, and again, by the ingenious arrangement mentioned above, found still more money by giving their clients overdrafts. Now, the main function of the banks

is to finance the industry of the country. During the war this did not matter, as the Government financed industry somehow. But now industry has to finance itself, and the Government has borrowed a large part of what the banks had to lend. That is one of the present troubles of industry in Europe.

But another disadvantage of Treasury Bills is that their holders need not renew them. Then the Government is forced back upon the second form, which is still more obnoxious. For the Government goes to the Bank of England and asks itself for an overdraft—the polite term for which is " Ways and Means Advances." Now, when a government does this, it simply means the creation of credit *with nothing to show for it.* The Government draws cheques on this credit to pay its debts with, and these cheques swell the deposits in the various banks. Now, a bank is bound to pay out deposits at short notice, if required to do so—even a deposit that arose from a Government overdraft. Thus an increase in a bank's deposits means that the bank needs more cash. So the Government had to print more currency notes for the benefit of the banks.

Now, it is obvious that the more money there is in the bank, and the more notes there are circulating in the country, especially if manufactured as above, the more you and I have in our pockets to spend. Thus the artificial creation of spending power, which is called " inflation," means an immediate rise in prices, because though there is more money there are no more goods. Again, if you double the amount of money circulating in a country, the holders of foreign bills of exchange naturally ask more for their bills. In other words, the rates of exchange move against that country.

Thus a floating debt means at the best that industry goes short of money, and at the worst, inflation, paper money, high prices, depreciated exchanges. A government that cannot pay its way creates no end of trouble for the country, and one of the evils of the war was that no country could pay its way.

To sum up:—

War loans mean	(*a*) destruction of the country's savings;
	(*b*) interest to be met out of taxes.
Foreign loans mean	(*a*) obnoxious invisible imports, involving
	(*b*) depreciated exchanges.
Floating debt means	(*a*) shortage of money;
	(*b*) inflation;
	(*c*) high prices, depreciated exchanges.

Taken altogether and adding high taxes, they mean the crippling of the industry of the country.

Moreover, during the war the Government prohibited the export of gold. Thus the gold points described in Section III. were no longer operative, and there was no reason why the depreciation in the various exchanges should be arrested at that point. Again, the process of inflation involves the issue of fresh paper money, and consequently a rise in prices, including the price of foreign currencies. Thus the price of francs expressed in sterling, or the London-Paris rate of exchange, depends to a large extent on the relative amount of inflation that has taken place in the two countries. Moreover, the Allies were importing far more than they could export—so much so, that even if gold exports were permitted, there was insufficient gold in Europe to cover the deficiency—and so it will be clear that a depreciation in the exchanges was inevitable. Many exchanges were artificially fixed during the war, but when they were set free, the crash came.

V

THE PEACE

THE POSITION OF EUROPE

WE have seen in the last section that owing to the diversion of our capital and labour from the production of wealth to its destruction, Europe had completely shattered the laws of her pre-war industrial system, and that practically every item which was essential for the continuation of that system had vanished.

1. The first essential of her existence in 1913 was that each year she had large quantities of finished exports which she could send overseas in exchange for the food and raw materials she needed for the production of goods for the next year.

Now during the war she had used up her stocks of raw materials and finished products almost entirely. The bulk of these goods had been destroyed on battlefields, while the little which remained had been consumed by the civil population, the majority of whom were actually engaged not in producing further world supplies, but in manufacturing articles with which to destroy them.

To take concrete examples. Germany was early in the war cut off from practically every overseas source of supplies. The raw cotton she held at the moment, instead of being made into printed piece goods, which she could exchange for next season's cotton, or corn from America, was used in the shape of gun-cotton, and destroyed the accumulated capital of years in a few hours by demolishing factories and even whole cities in France. The wool which should have been similarly made into articles for export had to be used

for "field greys," and her supplies of copper were completely exhausted in bands for shells, telegraph cables, etc. To such a desperate state was she driven for copper that the Germans used up their copper and brass domestic utensils and tore their knockers from their doors.

In the end she broke quite as much from economic pressure as from military defeat, and even that defeat was largely due to the failing quantity and quality of her munitions of war. Thus, in the closing period, German gas masks were nothing like so effective as they had been earlier. Our gas penetrated them in half an hour. The other belligerents suffered similarly, and as their supplies of finished goods declined, while their imports increased by leaps and bounds, they had to buy these war imports in other ways than with goods.

2. Therefore Europe began to sell its overseas investments, or mortgage them for large loans in America or elsewhere. What money her subjects saved was invested in war loan, which, unlike a railway, had no economic value whatever; and the same was true of the loans she contracted overseas for the purchase of food and raw materials.

It is essential that we should understand clearly the difference from an economic point of view between an industrial investment and a war loan. When people overseas borrowed money and spent it on building a railway, starting a mine, or planting cotton, the money so utilised did not vanish; it was converted into a "permanent railway line," or some other form of real capital. The machines and buildings, etc., enabled those who used them to get far more out of the ground than they could without them. Even an iron spade is real capital, for with it a man can dig more effectively and obtain more produce from the soil than if he had only a stick or his bare hands.

Therefore those who borrow money for these purposes can well afford to pay interest to those who lend them the capital, and yet benefit themselves from the loan.

War loan is spent on shells, or guns which not only

produce no wealth, but are actively engaged in destroying the accumulated capital of the past. Soon everything represented by that loan has vanished in smoke, and has moreover also destroyed other capital while doing so. In short, war loan represents nothing tangible. It is simply a heavy liability, and the liability is twofold: firstly, interest has got to be obtained, not from the earnings of the loan, but from earnings on what capital remains, and the labour it employs, *i.e.* by taxation; secondly, the loan has resulted in reducing the amount of real capital which can help to earn the taxes, which must be raised to pay the interest.

Thus a war loan, even if merely internal, is a serious matter to a nation and impoverishes it; but an external loan is still worse, for it upsets the balance of trade, and the interest can only be paid by sending abroad extra goods to the holders of the loan.

In short, an investment abroad benfits both parties, and is similar to the raising of additional capital by a good business man, which enables him to increase his business and increase his own earnings, whereas a war loan is like the borrowings of a foolish spendthrift who wastes it on riotous living; yet even the wildest spendthrift does not use the money he has borrowed from the moneylender to destroy his ancestral mansion.

Thus, instead of receiving interest on her capital invested overseas, Europe now has to export goods with which to pay the interest on her war loans, which earn nothing for her.

3. But besides interest due to her and goods exported by her, Europe paid for many of her imports by services. In particular, her mercantile marine carried the goods of numerous other nations, and her merchants rendered valuable services, for which they were paid. The mercantile marine is crippled, and many overseas areas, such as America and Australia, have started their own, or greatly increased them in size. The mercantile system is seriously disorganised, and its remuneration in bulk decreased, and in many other directions Europe is no longer able to

render the same amount of services as heretofore. Thus when peace was declared:—

(*a*) She was short of finished goods to exchange for raw materials;
(*b*) She had lost her overseas investments;
(*c*) Her financial and commercial system was shattered;
(*d*) Her mercantile marine was reduced;
(*e*) She had contracted war loans abroad which required exports to pay their interests;
(*f*) And these war loans, unlike industrial loans, could earn nothing themselves.

Summarised in this way, we can see that Europe had already violated most of the fundamental economic laws on which her industrial system was based, and would have been in a most unsatisfactory condition, even if her agricultural production and natural resources had remained as well organised as in 1913; but this was not the case.

Millions of healthy men, the pick of the population, have died during the war, and millions more have been crippled. The efficiency of many of the remainder has been seriously impaired, and the regular habits of a lifetime have been broken. A marked distaste for regular humdrum work is a noticeable feature of the people in almost every country, due in a large measure to their experience of soldiering. Extravagance and carelessness have been ingrained into many, and numerous other undesirable traits have been learnt during the long war.

On the material side, our agricultural and raw material production has been decreased. Thus ten of the richest agricultural departments of France have been devastated; her coal mines at Lens have been destroyed; her flocks of valuable wool-bearing sheep have been reduced by half; and a similar state of affairs is noticeable all over Europe. In some parts the necessary repairs to railways, mines, and machinery had to be neglected, and therefore production and efficiency have declined. Roads are in a shocking state; in some districts farms have almost gone out of cultivation, for example in Poland, and everywhere the supply of food

and raw material is actually less to-day than it was in 1913.

Above all, overshadowing all, is the loss of Russia. Russia, who covers one quarter of the earth's surface, and has practically disappeared as an economic unit. The food and raw materials she regularly supplied to Europe come no more, and Europe no longer has a counterpoise to America. What the actual conditions are like in Russia, no one knows. Her industries, except for war, appear to have perished. Not only does no corn come to starving Europe, but Lenin himself says that Russia herself is starving. This can only be because the peasantry have either died, or at most produce only sufficient to feed themselves and refuse to provide the surplus necessary for the rest of the population, since the Soviet seizes all surplus and gives them no reward for their labour. Anarchy appears to prevail throughout that vast area, and while that continues no one can produce food and raw materials in excess of local requirements, or organise the means for exporting them to other countries.

The South Slavs might do something on these lines, but it would be only a drop in the bucket, and even that drop does not come.

Surely, but slowly, stagnation and death is creeping westward. Russia has gone ; Poland has a rate of exchange of 1300 marks to the £ instead of 20.[1]

What does it mean ?

Europe can only live if she can get the food and raw materials she needs, and to do so she must send finished goods in exchange.

It has been clearly shown that henceforth she must export more than she imports, whereas before the war she did the reverse. Yet without food and raw materials she cannot restart her industries, and to get these in 1918 she could offer nothing—but paper money—paper money, utterly valueless, unless it could be changed for goods, and there were practically no goods which overseas countries required.

When the war ended there were many who thought that

[1] 2100 on December 23, 1920.

the *impasse* was merely a temporary phase. Goods were sent on credit; large loans were raised overseas to enable embarrassed Europe to surmount the initial difficulties, in the belief that before long the goods made from these raw materials would return and pay for the raw materials. Then the exchange rates would improve, and all would be well. Look at the rates of exchange. To-day they are infinitely worse than they were a year ago, and still worse than when the peace was made.

In other words, Europe is slowly sinking lower and lower into the morass. How much longer will the unequal struggle continue?

For let us be under no misapprehension. If Europe cannot obtain the supplies of food and raw material she needs, her industrial system ends, and then how can she support her huge population? She cannot do so on home-grown products, therefore they must die or emigrate. At present, in many areas they are dying. There are districts in Europe now where there are no children under seven years old left alive, and those who remain are only being saved by relief from overseas.

If Europe cannot send enough finished goods to buy her food and raw materials, she dies; and the rates of exchange tell us plainly already that each year she is doing so less and less!

FACE THE FACTS BEFORE IT IS TOO LATE!

VI

THE EFFECT OF THE PEACE TREATIES

BEFORE considering the effect of the Peace Treaties, let us deal with the question, which is certain to be raised, why this war has been so much more disastrous than that which terminated in 1815.

The answer is that the industrial system had not yet properly developed, by which is meant our modern factory system, which enabled Europe to support a population out of all proportion to its natural resources by means of a great export trade rendered possible by an elaborate organisation and rapid means of communication.

The factory system in Great Britain was developing during the Napoleonic wars, but had not reached anything like its present vast extent when they terminated. Nor had the population increased beyond 20 millions. Huge though its growth was compared with what it had been in 1700, it was still almost possible to feed it with home products. To-day, with 41 millions in Great Britain and 4 millions in Ireland, it is obviously impossible. In those days, with the exception of cotton, we obtained most of our raw materials from our own soil. Moreover, our mercantile fleet had then increased in size instead of decreasing, as it has done in consequence of the present war.

The Continent was still mainly agricultural and self-supporting, had a comparatively small population and no elaborate industrial system. Europe, following in our footsteps, is to-day a vast industrial, instead of agricultural, area. In short, there was no elaborate industrial machine to wreck, although there was serious business crises, unemployment and poverty even in Great Britain for many years after the war.

To-day the situation is entirely different from what it was in 1815, and the actual Peace Treaties have been badly devised if our peacemakers really desired to restore the stability of Europe.

The basic fallacy of the Peace Treaties lay in the fact that the industrial system of Europe was shattered. Norman Angell had shown quite clearly years before the war that such a war would have this effect, yet none of our statesmen realised it.

The possibility of indemnities from Germany is a matter where divergencies of opinion are possible. The writer believes that a very considerable indemnity could have been obtained from Germany—in fact, one far higher than our peacemakers demanded,—but not in the way they have set about it. Briefly, it would have required a stern ruthlessness that most of our politicians dared not contemplate, but which in the end would have been far kinder than what has actually happened. It could have been done by placing a " blanquet mortgage " on all the industrial undertakings, railways, and other assets of Germany, making Germany bankrupt, and administering her and her allies in the interest of her creditors, *i.e.* the rest of the world. The administrators would have taken her over as a running concern and seen to it that she at once received the food and raw materials required to keep the machine going, and would have also organised the distribution of her products.

In short, the world would have utilised the skill and energy of the German people for the good of the world. No doubt the German workmen would have had to work hard and for long hours for foreign taskmasters, but this would have been better than leaving them to starve; and when we use the word " German," we mean not only those who live in the old German Empire, but the kindred race in Austria, where the people are still literally dying of hunger, having neither food, nor raw materials, nor markets.

But instead of a bold policy such as this, we have allowed two years to elapse, during which time the German industrial machine has continued to disintegrate, while we

held over their heads the demand for an indefinite indemnity. There is no doubt that the Germans ought to pay for all the damage they have done, but to-day there is no doubt that they are no longer able to do so.

The other basic fault of the treaty was " Self-determination run mad." Several of the famous fourteen points of President Wilson were unsound, but this was the most unsound of all under the difficult circumstances of the times, and the interpretation of them was even more ridiculous.

To forbid German Austria from uniting with Germany, while allowing Bohemia to prohibit the exportation of food or coal to the derelict city of Vienna, was madness. Think of it, Vienna with a population of nearly 2½ million souls, once the administrative centre of a huge empire, left stranded with a small parcel of ground which could neither feed her nor supply her with coal or essential raw materials. But this blindness to the necessity of all Europe working together runs through the whole treaty. The great economic units are shattered or regrouped without the slightest regard to their economic possibilities. Truncated Hungary cuts herself off, like Bohemia, from Austria. An Italian adventurer, not content with the fact that Italy has taken Trieste and thus cut off Vienna from the sea, proceeds to seize Fiume, and thereby deprives the new Yugo Slav State of its natural port.

Bulgaria is shut off from the Mediterranean in order to satisfy Greece, which country finds herself with a huge land frontier, not only in Macedonia but also in Asia Minor, involving heavy military commitments. France, already overburdened with debt, and with large forces planted in the midst of a hostile population in Germany, insists on following a " will o' the wisp " in Syria; while we, not to be outdone, manage to get involved with all the Arab tribes from Mosul to Bagdad, in a country which cannot pay for an effective administration, and along a line of communications liable to attack on every side.

Finally, a paper League of Nations is set up, entirely devoid of any power or authority, and not even supported by the one wealthy country who could render it active

assistance. The man who gave the idea to the world could not carry his own people with him, and had to leave Great Britain and France to bear the whole burden of his ideal.

Pathetic are the expressions of hope which have been lavished on President Wilson's ideal; and our statesmen appear to regard it as a name with which to juggle, and instead of themselves endeavouring to solve the terrible economic problems with which we are faced, are content to leave them to the "League," which is not in a position to do anything.

After all, what was needed when peace came? The immediate necessity was to restart the industrial machine at all costs—it was a race against time. Food and raw materials should have been hurried to the various factories, no matter from where and no matter to whom. Austrian factories should have been restarted with Bohemian coal and American cotton. The devastated areas in France should have been reconstructed as quickly as possible, if needs be with Chinese labour. Somehow food, materials, and labour should have been sent at once, and other things allowed to drift.

It is quite probable even then that the task would have proved an impossibility; but what actually took place was in many instances just the reverse to what ought to have been done.

Bohemia, instead of helping Austria, cut off her coal, while Hungary did the same with food. Italy, instead of rushing her soldiers back to the factories, quarrels with Yugo-Slavia; while we, instead of thoroughly disarming Turkey in 1918, have had to get the Greeks to fight Kemel in 1920, having first given him two years in which to organise.

Retrenchment and economy were essential both by governments and individuals, yet both continued to spend like water. Necessities had to be imported, therefore luxuries should have been forbidden; yet the immediate result of peace was an enormous importation from overseas of expensive luxuries.

Poles and Lithuanians, both under the shadow of the Red Terror, cannot restrain themselves from open war, while everywhere the cry is raised for increased wages and shorter hours. That is, at the very moment when Europe's one hope was in economy and harder work, everyone, from statesman to labourer, did the reverse. We can easily excuse the latter, struggling with high prices and infuriated at the heartless extravagance of the profiteers, but not the leading statesmen of Europe, who even now continue to pour out money like water, though their revenue does not balance expenditure, and has not done so for seven years, despite heavy taxation.

Yet often this extravagance is the direct outcome of the Treaties of Peace. If half a dozen petty states are allowed to arise and ring themselves round with tariffs, and endeavour to cripple their neighbours by preventing them obtaining the necessities of life, armies also must be formed. If England is determined to turn the wandering desert Arab into a law-abiding citizen of a modern state in eighteen months, it is likely to cost both treasure and men.

If governments cannot reduce their expenditure, they must either borrow or print paper money or overtax. By the first two methods they further depreciate the exchange; by the latter they strangle industry. At the present minute there is not one of the former belligerent countries who is not guilty of these crimes against our industrial system, nor does one show the slightest sign of a change of heart.

Even Spain, which has not been involved in the war and should be industrially sound, since it produces large quantities of raw materials, is spending more than its revenue. When considering the Peace Treaties, we must consider their effects, and this over-expenditure is one of them. But indeed, the great indictment against these treaties is not so much that they are intrinsically unjust—often they are not,—but that they are impractical and their effect is to aggravate the serious economic positions created by the war.

Suggestions have been made that America should remit all Government loans due to the Allies if they will remit all reparation due from the Central Powers. These suggestions have not come from any responsible source on this side of the Atlantic, and there is no sign that America contemplates such a possibility.

Even, however, if she did, or if the Continent and ourselves, for we guarantee the Continent, repudiated our liabilities, it is exceedingly doubtful if Europe would become solvent. The basic trouble is that she cannot pay for her food and raw materials, without which she cannot live. The disappearance of a claim for interest, which in most cases is being held over even now, would not do much to set her on her feet.

The great indictment against the Peace Treaties is that by encouraging particularism and racial prejudices they have rendered it more difficult than ever for the European industries to restart their industries, to reduce expenditure, and assist each other to resume trade and industry.

Military commitments all over the world, excessive expenditure everywhere, gross interference with the normal routine of trade, hopelessness and discontent among the working classes, with actual starvation in some districts, are directly due to the Peace Treaties, which are partly, though not entirely, responsible for the present serious position of Europe. All these defects have arisen because their framers ignored the elementary economic fact that, for good or ill, all Europe is interlocked so closely that what damages one member inflicts serious injury on the others.

VII

THE DECLINE OF THE EXCHANGES

HAVING considered the economic system in vogue in Europe in 1913 and compared it with the position in which we found ourselves at the close of the war, let us now consider the course of events as shown in the period which has intervened.

In January 1919 the average rate for the franc was 25·97 to the £. Steadily month by month it falls; in July it was 30·80, and in December 41·03; during 1920 it continued to sink till, on 13th April, it touched 67·15. Then it rallied slightly owing to two facts: (1) better political feeling between Great Britain and France, due to the settlement of the Frankfort incident; (2) the introduction of drastic import restrictions which limited the importation of luxuries. As the latter synchronised with the practical cessation of the importation of necessities, this action was fairly successful. This brings us to the consideration of the fact that there are seasonal influences affecting the rate of exchange. The bulk of the raw materials and food imported into Europe come from the U.S.A. This means that when the harvest begins to come on the market in autumn and early winter, all Europe must buy or go without. Hence, from October to March, Europe is buying cotton, corn, and a host of other agricultural products from the States, and therefore her rate of exchange declines. The way in which this difficulty was surmounted before the war has been explained in Section III. After these crops have been sold, there is a pause, and the depreciated exchanges have a chance of struggling back a little. As soon as the next crop comes on to the market,

the exchanges once more begin to sag. The tragedy, however, is that after each season they will not work back even to the old standard of the previous summer. Thus, whereas the French average for December 1919 was 41·03, it actually touched 44·20, which was the lowest point reached in that year. How far that "lowest point" has been left behind in 1920 everyone knows; and now the new buying season has started, and no one can tell how low it will go this winter.

Italy started in January 1919 with an average of 30·31 instead of a par value of 25·22, but its December average was 49·63. Since then over 100 lira to the £ has been reached, and though that unit also struggled back a little during the summer, on the 9th November it reached 100·12, while the franc was 58·45.

In the case of Germany, in August 1919 the mark was quoted at 80·0 to the £ instead of 20·43; by December the average for the month had sunk to 181·53. Compare even that figure with 298·50 on the 9th November. Portugal, Bohemia, Austria, Poland, all tell the same story; and it must be remembered that these rates are against the £, which, when compared with the American dollar, is itself seriously depreciated.

Instead of getting 4·866 in January 1919, we received on an average 4·75; in August it averaged on 4·25, and in December 3·81. During the opening months of 1920 it sank still lower, obedient to the law of the harvests, till it touched for a brief space 3·19. Then it worked back, but now has begun to show the effect of winter, and on the 9th November was 3·36. And though there has been a rally of the Continental Exchanges since then, unless something drastic is done, we shall see a further slump.

What, then, is the value of the Continental currencies in American money? For it is from that country that the Continent must buy its necessities during the next few months. The lira on the 9th November, instead of being worth its par value of 19·3 cents, was actually worth, in New York, 3·4 cents. These seasonal movements are an additional proof that the reason why the European

exchanges are declining is that Europe must obtain its chief supplies of food and raw material from the United States.

True, supplies come from elsewhere, notably the Argentine, which, being south of the Equator, has her harvest when we have our spring; but these supplies are not sufficient to counteract the effect of America. Incidentally we note that countries like Argentina and Uruguay have exchanges above par, but owing to the fact that this is their summer, their rates show a tendency to decline just when America's is rising.

Therefore, we see that it is no use saying Europe should not import from U.S.A., for obviously her main imports are such as she must buy, and must buy now. There are no accumulated stores in Europe except what we may have in Great Britain. She can get nothing from Russia, so it is—buy from the States or starve. Already many are starving. Similarly, Europe must get her cotton from America; it is the type the Continental mills require and obtainable in bulk nowhere else; and the cotton crop also comes on the market in our winter.

Europe must buy, but what can she send in exchange? Only a few goods made from the raw materials she bought last winter when her exchanges were already sinking low. And when her goods are exported she gets less than a third of their nominal value. Stay, there is one thing which France produces from her own soil and works up into the finished article. It was a line known the world over and highly appreciated. Yes, France could send millions of pounds' worth of *wine*—but America has gone *dry*!

VIII

GOVERNMENT ACTIONS CALCULATED TO HASTEN THE DECLINE

(*a*) EXCESSIVE EXPENDITURE

SOME of the points raised in this section have already been touched on, but as they are matters which *can* be rectified by prompt action, no apology is necessary for enlarging on them further.

Not a single ex-belligerent government can be acquitted of the charge of gross extravagance, nay, even some of the neutral governments also lay under the same indictment.

Let there be no mincing of words here. We may not be able to turn back the hand of Time, nor even to make amends for our gross breaches of the economic laws which the war compelled us to commit, but for statesmen to sit still and see their expenditure exceeding their revenue month by month long after war is ended, and, when challenged, to plead that they cannot help it, is, at the present moment, a crime against civilisation.

All Europe is slowly sinking into a morass from which there will be no recovery. When the final crash comes not merely our old industrial system, but also western civilisation will perish. It is possible that we yet may save it; it may already be too late; but one thing is certain, and that is that every additional load of debt, every extra issue of paper money, brings the final tragedy nearer.

Yet look where we will, we see the same thing happening. Take France, she divides her expenditure into three sections. The first is supposed to be balanced by revenue; the second is avowedly paid for by short-dated loans; and the third is

o be paid for out of the reparation from Germany. Now oth the second and third are thoroughly bad. The second s but adding more interest-bearing debt to the huge amount lready weighing down France. The credit of France, lready overstrained, has to bear yet another burden. No ne can see an end to it. Soon there may have to be a urther call, and for the most part this expenditure is like he war expenditure, non-productive. It represents all nanner of things, but among them many are administrative harges which should be paid for from income or else dis- ensed with altogether. That is one of the faults of the French Government. Afraid to tax sufficiently, she has esorted to loans, to inflation of currency and credit, and to ll manner of unsound methods, while the French profiteer, very whit as objectionable a person as our own, has escaped practically scot-free. Yes, having plundered his less fortunate compatriots, he was even left free to import expensive luxuries until early this year, expensive luxuries which depreciated the rate of exchange and compelled France to pay even heavier than she need have done for the necessities she had to import. All through the war she failed to tax enough, and since the war, despite feeble efforts to improve matters, she has continued to make the same mistake. It could have been done once ; now it may be too late, for the time of " war prosperity " has passed.

As to the third section, let us say but little. Gladly would we see Germany compelled to pay full reparation, but to-day few of us really believe that anything tangible on a large scale will be obtained. To-day that is practically impossible. When the French do realise that to all intents and purposes reparation is an empty name, the effect will be terrible. A deceived people may or may not turn in blind fury on their leaders ; they may lose heart and give up the struggle ; but this is certain—the realisation will strike a terrible blow at French credit and financial stability. We in Great Britain have grown to realise the truth that Germany hasn't anything of real value with which to pay—toys won't rebuild Lens,—but France is still pinning her faith to an empty phrase. Reparation on any considerable

scale is about as likely as that Russia can pay her debts. Both nations may promise what you like, may even perhaps mean to do so, but they have not got the goods with which to do it.

Uncovered loans, paper money in vast quantities, resulting in ever-rising prices for the necessities of life, and thus producing discontent at home and further depreciation abroad, mark the policy of almost every Continental belligerent; whether it be Germany, Poland, Austria, Italy, or Portugal, we find on examination the same story.

Great Britain, true to her hereditary policy of caution, has endeavoured to avoid these pernicious practices; and while we cannot say she has entirely succeeded, we must admit that our Chancellor has done his best. In doing so he has, however, rushed to the opposite extreme, and has taxed far too much. In particular, his heavy Income Tax is crushing life out of the middle classes, still, despite their detractors, the backbone of the country, while this, coupled with Excess Profits Duty, is strangling industry. The slump in England began almost immediately the Chancellor declared that his increase of E.P.D. from 40 per cent. to 60 per cent. was irrevocable.

First, of course, it was a distinct breach of faith. It had been reduced to 40 per cent. during the previous year, and everyone had been led to believe there would be a further reduction, if not abolition, in 1920. To increase it to 60 per cent. was fatal. Just at a moment when it was essential to encourage business men to open up new markets, because, with the falling Continental exchanges, those countries must tend to buy less and less—the Chancellor increases E.P.D.

In other words, a manufacturer who is spending money in developing a new market overseas, always a risky business, and particularly so just now, with fluctuating prices and exchange rates, if he loses must bear practically all the loss, and if he succeeds must hand over 60 per cent. of his work, energy, and foresight to the Chancellor. Most manufacturers naturally refused to do so and played for safety. Yet it was particularly important that we should develop

these markets from whence we had to obtain our raw materials.

The reason why the Chancellor did this, despite the warnings of everyone connected with business, was that somehow he had to find the money for the extravagance of the Government.

As he was warned, he has, in the end, lost more than he has gained; but that is poor consolation either to the business men whose businesses have been crippled, or to the rest of the nation, which will now have to find the money. The tragedy of it is that when called on to economise, the Government protests that its critics must suggest what should be cut, well knowing that every cut will antagonise a section of the community which believes in that particular object.

Yet the plain facts are that we are spending more than we earn and taxing industry more than it will bear. Any further increase in the total of taxation will restrict trade, still further increase unemployment, and reduce revenue.

Before the war our total annual earnings were roughly 2000 million pounds, and the Government took in taxes about 15 per cent. To-day our earnings are in inflated money, perhaps 4000 million, and the Government is taking fully 30 per cent. If the pound be taken as worth about 7s. 6d. of its pre-war value, we shall see that we have actually a far smaller income, and twice as much of it is absorbed by the Government.

This fact is lost sight of by the average man; but if his income has only doubled, he will be the first to admit that he does not live as well as he did on his old income in 1913; and since the index number of commodities is now about 165 per cent. above the old standard, we can see that the necessities of life cost us two and a half times what they did before the war, whereas our national income is only double. If in addition the Government is taking not merely double the old amount, which would have meant 15 per cent. of 4000 millions, but four times as much, or 30 per cent., we realise at once that there is little margin to live on, and the accumulation of capital, which is essential if what was

destroyed in the war is to be replaced, becomes almost impossible.

The ordinary working man does not realise that he is affected by excessive taxation, even if he pays no income tax. It is always partly distributed among the bulk of the nation, at first in the form of high prices, and later, if these reach a figure which prevents people buying, it is reflected in loss of wages caused by unemployment. The Socialist may fulminate against the present industrial system which renders that not merely possible but certain; but he is merely attacking a fundamental economic law which cannot be broken without totally destroying the present industrial system.

That system has enabled him and countless others to live in an island which could not have supported half its present population even if cultivated far more closely than it is. If that system goes, half those who lived by it must perish.

It is possible to argue that in 1750 we might have developed the system on different lines, but that is pure theory, which will not now help us. If we are prepared to reduce our population to eight or even ten million souls, we might make a new start, but in that case what is to happen to all the rest, even if the change took place gradually and without violence?

In short, our Chancellor, like the Continental governments, is making a bad situation infinitely worse, though he has proceeded on somewhat different lines. The law of life is that you must spend less than you produce—every nation in Europe is doing the reverse, and their governments are breaking the laws even more flagrantly than the peoples.

Our expenditure all round must be less than our income, and the Government, nearly all of whose expenditure is unproductive, must lead the way. It is no use reducing expenditure by a hundred thousand, it must be by hundreds of millions at once, and further drastic reductions to follow. If we cannot afford a thing, we must go without it, no matter how desirable, just as a private individual has to do.

The Government must face the storm. It will be poor consolation to them to save their seats and lose Great

Britain, for that is the alternative. Do not let us allow ourselves to be blinded by the dazzling sophistries of party politicians. It may or may not be possible to save Europe ; it is still possible to save the British Empire ; but the sands of Time are running out, and in two or three years more it will be too late.

But the governments have been guilty of other follies besides over-spending. In almost every case since the war concluded, every attempt on the part of a government to control the exchanges has ended in disaster.

(*b*) ARBITRARY REGULATION OF RATES OF EXCHANGE

One of the earliest examples of this was found in a frontier town between Mexico and the U.S.A. Here the State authorities said that one U.S.A. dollar was worth 75 Mexican cents, while the Mexican said that one of his dollars was worth 75 U.S.A. cents. Business was done on the following lines. You entered a U.S. bar and bought a drink for 25 cents, for which you tendered a U.S. dollar. You received in exchange one Mexican dollar, representing 75 U.S. cents. You recrossed the frontier and bought another 25 cent drink in a Mexican bar, for which you tendered your Mexican dollar. The change you got was one U.S. dollar, representing 75 Mexican cents. You then repeated the process *ad libitum*. The point of interest is, " Who paid for the drinks ? "

And now to be serious, for the present position is far too serious to be treated in a jesting manner. During the war the rates of exchange between the Allies were artificially fixed at about par. The regulation of exchange rates is a breach of the laws of economics ; but then war in itself is a negation of sound economics. Various means were adopted to keep the exchanges fixed, or " pegged," as the expression was. For instance, we lent money to France and Italy, and New York lent us money in return. These loans had the incidental effect of rendering it possible for the exchange to remain pegged. Again, before the war, Europe held a large quantity of securities representing investments in

American mines, railways, and factories. These securities were commandeered by the allied governments, and sold to New York whenever the dollar exchange showed signs of falling. The effect of this is apparent now, when we no longer receive interest from America to cover our excess of imports.

On the conclusion of hostilities, these pegs were removed, and the exchanges were left to find their natural level. But in many cases this natural level was so appalling, that the governments of the various countries tried to regulate their foreign exchanges. The depreciation in the New York London exchange was arrested last March by the shipment of gold to New York, and by the voluntary action of the Liverpool brokers in refusing to buy cotton. This was successful for a time, and was a perfectly legitimate method. But in other cases the methods adopted were more questionable.

The French Government arrested the fall of the franc last April by the imposition of import restrictions of a most stringent nature. They succeeded for a time in their immediate object, but at the cost of strangling many of the industries of the country. Still, France was not in a position to buy luxuries, and so this action was legitimate. If the French Government could have set its own finances in order, it might have been permanently successful.

The Portuguese Government went a step further, and fixed the value of the escudo at 17⅝d., when its true value was only 13d. The result was a suspension of trade with Portugal, as foreign merchants refused to do business on this basis. What business was done was done clandestinely, and the credit of Portugal received a heavy blow. Finally the Government had to withdraw this decree. The escudo is now down to 7½d.,[1] largely owing to further inflation and financial instability.

In February 1920 the Babington-Smith Committee recommended that the ratio of the Indian rupee to sterling should be changed from R. 15 to £1 sterling to R. 10 to *one gold sovereign*. The only Indian member of this Committee

[1] 6d. on 23rd December.

pointed out in a minority report that this would be looked upon as a breach of faith with India, and the result would be a complete disorganisation of Indian commerce. Nevertheless, the Government adopted this recommendation. The prediction of this Indian member has come true. The rupee is now only worth 1s. 8d.,[1] whereas, if allowance is made for the premium on gold, it should stand at 2s. 9d.—for R. 10 was to equal one gold sovereign and not one "Bradbury." Thus the act is now a dead letter. The balance of trade has turned against India. "A storm of protest has been evoked in India, where the situation is very serious, and numerous business failures appear imminent."[2]

Now what is the lesson of these examples? The reply is that the rates of exchange are the symptoms of the economic position of the countries concerned. They can be compared to the rise in temperature that shows that a patient is suffering from fever. No doctor tries to regulate the temperature. He tries, rather, to remove the cause of the fever. The analogy holds. If a country imports more than it exports, if a government lives beyond its means and resorts to inflation, that country is economically unsound, and is on the way to bankruptcy. The rates of exchange simply register that fact. Thus the action of a government that tries to regulate the rates of exchange is as childish as that of the ostrich who hides his head in the sand. It is not only childish—it is dangerous. For while it conceals from the country the fact that it is economically ill, it lowers the credit of the country in the eyes of the world. Moreover, it can never be enforced for long, and so becomes futile; the real effect it has is to hasten the country along the downward path which ends in bankruptcy and disaster.

[1] 1s. 5d. on 23rd December.
[2] *Manchester Guardian Commercial*, 18th Nov. 1920.

IX

ANALYSIS OF WHY THE DIFFERENT EXCHANGES ARE HIGH OR LOW

1. THE par value of the American dollar is $4·8665 to the £; on 20th November $3·470 bought a £, which means that it is 40·2 per cent. above par. The reason why America has achieved this is that she can sell what Europe must buy, namely, food and raw materials. From her comes the bulk of the world's cotton crop, and also large quantities of corn, meat, etc.; minerals also are obtained from her, and in addition semi-finished and finished products. During the war she has bought back most of the investments in her country held by foreigners, and has loaned large sums to Europe; and since peace her people have advanced credits to enable Europe to buy food and raw materials. On these loans interest must be paid, and thus there is a phenomenal demand for dollars from practically every country, and almost all the gold of Europe seems to have passed to America.

In short, America has everything that Europe has not; but she is finding that the high value of the dollar is strangling her export trade. Europe can no longer buy her manufactured goods, and even her raw materials and food are paid for in depreciated paper money. Since America either cannot get or does not want the European goods which this paper would buy, francs, lira, and marks are a drug in the market.

Therefore, American manufacturers who enlarged their factories during the war are finding that it is increasingly difficult to export their products. This is not because there are not people who want the goods, but because these

people cannot afford to buy them with their depreciated exchanges. To-day it looks as if Europe cannot afford to buy its full quota of food and raw materials, for the prices of many of these necessities are falling in America, although we know that in many parts of Europe people are actually starving. This means that unemployment is increasing in the States, and many big firms are in financial difficulties. Americans are beginning to wonder whether they will ever receive the arrears of interest due on their various loans; their soldiers still have large sums in francs which they left in France when they returned home. The franc being somewhat depreciated, they left these sums behind, expecting the franc would recover; to-day it is infinitely worse, and American manufacturers and merchants find that the sums paid to them are worth about half what the goods cost. Needless to say, they had followed the oft-repeated advice to quote in the currency of the country to which they were exporting. Other Americans, like ourselves, who had insisted on payment in their own currency, have been receiving cables cancelling contracts, because the European importer could not pay the high price demanded for dollars.

In order that we may realise what these rates are, characteristic examples are given :—

	Par in Cents.	Average for week ending 17th Nov. In Cents.
France . . .	19·3	5·8
Italy . . .	19·3	3·5
Germany . .	23·8	1·2
Bohemia . .	20·3	1·1
Poland . . .	23·8	0·3

Europe being unable to send manufactured goods, save in diminishing quantities, for food and raw materials, cannot buy American manufactures under these circumstances: what is to happen to American export trade which

has been built during recent years? If she cannot sell to Europe, she is deprived of one of her chief markets. It must be remembered that other raw material countries do not as a rule require her raw materials, with the exception of a certain amount of cotton. They themselves produce a surplus for export, and their own requirements are small. On the other hand, their requirements, as far as manufactured goods are concerned, are usually fairly simple, and if they can get them from countries with depreciated exchanges they will do so, for they will be cheaper. From the economic point of view they *should* do so, for by so doing they enable those countries to buy their raw materials from them.

We have dealt with America at considerable length, as, with the exception of Japan, her unit stands higher than any other in the world.

2. Japan's position is peculiar. With the exception of a few commodities like camphor, she exports but little raw material or food. Whatever she was twenty-five years ago, to-day she is the great manufacturing country of the East. Whereas on 20th November the dollar was 40·2 per cent. above par, the Japanese yen stood at 6·857, or 42·9 per cent above par.

During the war she sold large quantities of munitions to the Allies; but the conflict cost her comparatively little in men or treasure compared with the other belligerents. She was able to supply manufactured articles all over the world at a time when most of her competitors could send practically nothing, and in particular she was able to send cheap goods to India and China, which contain a huge population who cannot afford the cost of high-class goods, but who, owing to the rise in the value of silver, and other reasons more directly associated with the war, were more prosperous than they had been for many years.

Nevertheless, it is necessary to realise the serious crisis through which Japan is now passing. All is not well there. She, too, is beginning to feel the effect of the trade slump. China and India can no longer buy as they did, and rumour has it that many of the Chinese importers have been caught

with large stocks of goods on their hands, with a falling market, and their financial stability is involved. The high value of the yen is already beginning to affect her export trade, speculation has been rife, and if some of her foreign creditors fail, the industrial situation may become even more serious than it already is.

Nevertheless, Europe must face the fact that in the Pacific a new industrial State has arisen, ready to wrest from her the former commercial and industrial supremacy she claimed.

3. Canada is in a somewhat similar position to the States. But her manufactures being mainly for home consumption, and her loans to the Allies small, she has not so high a rate of exchange, nor will it affect her so directly. Indeed, on the whole, Canada represents the happy mean, for while she exports raw materials and food, she can still take large quantities of manufactured foods in exchange. Unfortunately, however, for Europe, she obtains most of these from the States.

4. Argentina and Uruguay may conveniently be taken together. They are mainly raw material countries, and their corn, meat, and wool are badly needed in Europe. Just now this is their non-exporting time, for, being south of the Equator, their harvests fall in what is our spring. Hence there is a distinct tendency for their exchanges to fall, as they are now importing more than they export. This should be checked next spring if Europe can buy their goods.

5. Peru is one of the few places in the world where a gold-backed currency still exists. She also exports minerals and other raw materials. Percentage rise against the pound sterling is +19·8 per cent. Though a comparatively small country, she is almost unique in South America, in that for many years she has had a stable currency copied from our own ; and if her rulers continue to display caution and good management, she should have a great future before her.

6. Switzerland appears to have attracted all the silver and gold of the former Latin Union into her banks. Whereas

in France one hardly ever sees a silver franc, only dirty notes, in Switzerland one finds those francs. The maxim of the old political economists that bad money drives out good money has been completely exemplified in the case of the contiguous countries, Switzerland and France, despite all manner of French regulations, which aim at preventing the export of French money into Switzerland. The high exchange value of her unit enables her to obtain her food and raw materials cheaply, but it is a decided bar to the export of her manufactures, while the decline in her tourist business is also a serious matter. Nevertheless, she stands out amid her mountain fastnesses, an island of comparative prosperity and stability in the midst of a sea of despair.

During the war she had her difficulties, being suspected by both sides. As soon as peace came she had to crush a revolutionary attempt to subvert the State, but she has come through comparatively free from debt.

7. Holland is the last country in the world with a rate above par, though Sweden is exactly par at the moment, has been above, and may be so again if she is fortunate.

Holland owes her position of a percentage increase of 6·3 to the fact that she is mainly a mercantile nation. Her industries, though often in difficulties owing to the shortage of raw materials, were never entirely cut off, for she had her own supplies in the Dutch East Indies, and what she did not require herself she could exchange for others she could not obtain from that quarter. She was able to sell to both sets of belligerents, and her overseas trade increased rather than diminished. Naturally a careful and frugal nation, the war made her more economical and frugal, since, owing to the submarine war, her merchants lost from time to time cargoes of imports. Still, these depredations never became so severe as to disorganise her industrial and commercial life, while her war expenditure, compared with that of other States, was comparatively small. The mobilisation of her forces, no doubt, necessitated additional expenditure, but this was mainly paid for

out of taxes which were fairly easily borne owing to the huge profits many Dutchmen made.

Peace found her with her industrial system practically intact, with interest due which would help her finished products to pay for the additional supplies of food and raw materials she required, while her proximity to both Central Europe and ourselves rendered it easy for her to sell whatever these countries could buy. Nor must the fact be overlooked that Holland produces within her own country considerable supplies of dairy produce, an invaluable asset to-day.

What will be her fate if Europe goes under? Already her merchants are finding the same difficulties as we are doing, but increased by her higher rate of exchange. In short, her neighbours are finding it difficult to buy her goods. She is not, however, a great industrial nation as we are, and if these had to disappear her merchants and agriculturists could probably manage to exist somehow. She has a long sea border and is the natural port of entry for a large part of Europe. She has ships and overseas investments; in the Dutch East Indies she has a market for some of her products, and a place whence raw material may be obtained and distributed.

8. Sweden has valuable supplies of timber, a stable government, and considerable agricultural land, while her population is not excessive. Her own soil will supply most of her bare necessities, while her exports of timber, iron, etc., enable her to buy abroad such finished articles as she does not produce. If left in peace she has little to fear, but her eyes must ever be turned to the danger from the East.

9. Norway and Denmark move together. The former holds a seafaring race, and if it were not that her merchant fleets bear the goods of many foreign nations, Norway, though thinly populated, could not keep half her inhabitants. She lost cruelly during the war, and the present slump in shipping rates renders it difficult for the ships which are left to pay for what she must import from abroad.

Denmark is a small country, mainly occupied in highly

intensive dairy farming. Her government had many difficulties during the war, and now her principal neighbour and customer is almost bankrupt.

We have now dealt with all countries above par, and even two who are distinctly below it, but we cannot devote the same space to all the rest.

We will concentrate on certain European countries, merely noting that the depreciation of Brazil is mainly due to the fact that she is largely a one crop exporter—coffee. This crop is chiefly consumed on the Continent, which can no longer afford to buy the quantities it did. Hence much of her crop remains unsold. It must also be admitted that her government has not acted wisely in currency matters, and appears to have issued additional notes without proper backing.

France and Spain have already been dealt with elsewhere. The countries we will now consider are—

Italy, Greece, Portugal, Germany, Czecho-Slovakia (Bohemia), Austria, and Poland.

These, with the addition of France, cover all the important areas in Europe which are threatened with collapse.

I. Italy, with 92 lira to the £ and a percentage depreciation of 72·6, is in a serious plight. It is due to the following main causes, some of which have grown out of the others :—

(*a*) No finished products to export in proportion to what she must import.

(*b*) Little or no interest due, or services to be paid for, by overseas countries.

(*c*) No coal, and hardly any raw materials, also shortage of food, all of which must be imported.

(*d*) Heavy war expenditure due not only to the war, but to her struggle to seize areas claimed by the Jugo-Slavs.

(*e*) Crushing taxation and large foreign loans.

(*f*) Political and social unrest, largely, though not entirely, due to the above.

(*g*) The high cost of the necessities of life to the populace constitute an additional social danger.

II. Greece came out of the war with an appreciated drachma; on 15th December 1919 it was still worth 24·82, and had been much higher. Depreciation was due—

(*a*) To excessive importation due to the fact that she had absorbed large masses of paper money from the allied armies for goods sold at extortionate prices. This was, therefore, a hugely inflated asset.

(*b*) Her exports at all times were far below her imports, and this excess of imports was paid for by her shipping and mercantile business in the Levant. She bought heavily at high prices, hoping to resell at a large profit. Herein she miscalculated.

(*c*) The collapse of Turkey and the rise of Kemel and the Nationalists deprived her of her markets in Turkey in Asia. The collapse of Armenia had the same effect.

(*d*) The impoverished state of old Servia prevented her buying, while the hostility of Bulgaria and the collapse of Roumania had a similar result. The reason for Roumania's disorganisation is — (i) Devastation wrought during the war; (ii) the large mass of Hungarian, German, and Russian notes which had to be absorbed; (iii) political difficulties, both internal and with regard to Red Russia.

(*e*) The collapse of the Black Sea trade owing to the anarchy in Russia and North-Eastern Turkey.

(*f*) There seems reason to believe that in Syria the French did not encourage Greek trade.

(*g*) Also we must not forget that the Greek Army has been kept under arms up to the present moment, thus depriving her of the cultivators of the soil and the necessary workmen in mines and factories.

(*h*) Political events cast their shadows before them. The position in the Near East is both economically and politically most critical. Many of the big importers have warehouses crammed with goods bought at high prices which they cannot

sell. Naturally, therefore, their position is unstable.

III. Portugal.—This unfortunate country has seen her unit, whose par value was 4s. 5d., fall, until to-day it hardly is worth 7½d.[1] The depreciation has, during the last year, been steady and rapid, and, unlike other exchanges, it hardly ever rallies. The causes are—

(*a*) Unstable government and continued social unrest.

(*b*) Repeated strikes and reduction of the production of its industries.

(*c*) Persisted inflation; Government expenditure far out of proportion to revenue; loans till no new loans could be obtained, followed by repeated issues of paper. All gold and silver have long since vanished; even copper coins are growing scarce; there is a paper note worth on exchange about ½d.

(*d*) Exports have not balanced with imports for years, and if it were not for the support she gains from the raw material products of her Colonies, and remittances from her subjects in Brazil, she must have collapsed ere this. There are few countries which have suffered more cruelly at the hands of her Government than Portugal. In herself there is no reason why she should not be a small but economically sound country. Her population is only about four millions, and her peasantry appear to cultivate their farms thoroughly and efficiently. She produces sardines, cork, and other commodities which sell freely abroad, but her finances have been reduced to a state of hopeless chaos by the violation of every sound currency law. At 32 to £1 her percentage depreciation is 85·8 per cent.

IV. Germany, of course, is one of the outstanding examples of the effect on an industrial nation of the Great War. With her mark fallen from 20·43 to 253, her depreciation is −91·9 per cent.; but its most serious factor

[1] On 23rd December=6d.

is its constant fluctuations. All trade becomes a gamble, when within a week the rate may vary between 320 and 253 to the £.

Short of food and raw materials, and with hardly anything to send in exchange except a few luxury articles like toys, Germany's only chance is to sell to those very countries, such as Great Britain, whose population has the best cause to hate her and her products. Even when she has done so she receives back a pittance for all the labour expended, which has then to be reduced even further before she can buy from another hostile country—America—the food and raw materials she needs. Truly fate is making her pay the penalty for her criminal folly.

V. In the case of Bohemia, many of the same causes are at work. She also has difficulties of her own to offset the advantage of having within her own frontiers supplies of important minerals, including coal. The chief disadvantages with which she has to contend are—

(*a*) A mass of depreciated paper money, much of it a legacy from the collapsing Austro-Hungarian Empire. In addition, forgeries abound, and the whole financial organisation is in a state of chaos.

(*b*) Around her are countries as badly or worse placed than herself. Her depreciation amounts to 91·4 per cent. Germany is 91·7 per cent. Poland is 98·5 per cent; Austria 97·9 per cent. Even in Roumania it is 90·0 per cent., while Hungarian and Jugo-Slav notes are hardly quoted! In short, she is surrounded with nations with almost worthless currencies.

Do you realise, reader, that from France, with a depreciation of 53·6 per cent., the currencies race downwards till they end in the hopeless condition of Russia? From the Bay of Biscay to the Behring Straits we find the same tale, only worse each step we move eastward.

(*c*) In the midst of this financial chaos is Bohemia, with no port of her own and a disorganised railway system.

(*d*) She is a new nation, not yet properly organised, hating most of her neighbours, and hated by them.

(*e*) Her government has difficulties at home, and has deliberately created artificial barriers by cutting her off from the natural and former market for her products in Austria.

(*f*) She, too, is short of raw materials, and

(*g*) Her government has heavy debts and is short of revenue.

VI. Austria has, by the Peace Treaty, been created as a State which must collapse. Unless the League intervene and grant her a lien on the raw materials and food without which she cannot life, she must perish. Despite the efforts of Relief Associations her children are dying, and her adults becoming hopeless wrecks of humanity. She is without the barest necessities of life and has nothing with which to purchase them.

VII. Poland has been devastated again and again, first during the Great War, and later since the Peace, by Bolshevik Russia.

Peace—in the case of Poland the word is a hollow mockery. Cruel war has raged round Lemberg again and again. Along her ill-defined frontiers the Polish, Ukrainian, and Red forces have swayed to and fro. Her government unstable, her starving armies largely formed of boys, have carried on a never-ending struggle. Her industries—Warsaw was once a vast industrial centre—have neither raw materials nor men. Her factories are in ruins, her machinery wrecked. Even her farms are half untilled, and her forests cannot be cut or transported.

On 20th November[1] the Polish mark, with a nominal parity of 20·43, was worth 1487·50 to the £, and her depreciation therefore stood at 98·6 per cent., nearly 6 a penny for a coin normally worth a shilling. The only thing cheap in Poland is paper money, which costs far more to print than it is worth on exchange. How much lower can it sink before it too passes from the list of currencies worth quoting?

[1] On 23rd December=2100.

VIII. What has happened in Poland has happened in Russia, and there civilisation itself has perished. Mile by mile we have travelled eastward till we look over the Red Desert of Despair, and shudder as we remember that beyond us lies one-quarter of the earth's surface now returning to primeval savagery. There is no real strategic frontier between Russia and Poland, nor is there one between Poland and Germany. But hunger and industrial stagnation can leap over boundaries which an army can hardly pass, and their leader is winter.

X

THE LESSON OF PRICE MOVEMENTS IN 1919 AND 1920

THE movements in the prices of commodities during the last two years afford a striking illustration of the unhealthy economic state of Europe. As an example of these movements, a table has been prepared which includes the

Month.	*Economist* Index Number.	Cotton, Middling Uplands, per lb.	Wool, merino, 64's, per lb.	Coal, steam (best), Newcastle, per ton.	Iron, Middlesboro, Wts., per ton.
		d.	*d.*	*s.* *d.*	*s.* *d.*
Pre-war . .	118	7·14	30	15 6	50 0
1919.					
January . .	266	19·76	71	42 6	95 0
February . .	264	18·76	71	42 6	95 0
March . . .	259	19·45	71	42 6	95 0
April . . .	262	19·25	71	42 6	95 0
May . . .	272	18·55	71	42 6	155 0
June . . .	281	20·32	97	42 6	160 0
July . . .	293	21·44	97	48 6	160 0
August . .	296	19·74	97	48 6	160 0
September . .	299	19·55	111	48 6	160 0
October . .	309	24·90	122	48 6	160 0
November . .	317	26·21	138	48 6	160 0
December . .	335	28·71	138	48 6	160 0
1920.					
January . .	353	30·67	144	48 6	172 0
February . .	371	31·69	144	48 6	175 0
March . . .	380	30·74	156	48 6	194 0
April . . .	374	29·35	166	48 6	200 0
May . . .	373	28·70	151	51 0	217 6
June . . .	357	29·38	112	52 8	217 6
July . . .	358	28·50	96	52 8	217 6
August . .	352	28·04	93	52 8	219 4
September . .	347	23·54	87	52 8	225 0
October . .	326	19·37	67	52 8	225 0
November . .	300	16·00	60	52 8	225 0

Economist Index Number, and also the actual average monthly prices of some of the more improtant commodities. The Index Number is a fairly accurate measure of the rise and fall in the general level of prices, and is expressed as a percentage of the price level in the years 1901–1905.

The price movements shown in this table are most instructive. It must be remembered that during the war the industry of the country was under Government control. This control extended to the prices of the raw materials. Moreover, in many cases, such as food-stuffs and wool, the actual purchasing was done by the Government at fixed prices. This control exists to-day in the case of primary food-stuffs such as wheat, sugar, and meat. And one of the causes of the exaggerated price of these articles to-day is that the Government is both unable and unwilling to sell at a loss. But this is anticipating.

Thus, on the conclusion of hostilities, industry was under the control of the Government. All industries that were not essential during the war had been practically closed down. There was paper money to be had in plenty, as a result of Government inflation. Many people had war gratuities, etc., to spend. And the army returned to the country to find a great shortage of the luxuries and many of the necessities of life. In short, this country and her Allies had to make up the leeway brought about by over four years of war.

The result is shown by the Index Number on the preceding page. It is true that between January and March 1919 it dropped from 266 to 259—a negligible amount. This was a time when people were finding their bearings, and industry was turning over from war to peace. Moreover, prices were steadied by the flood of war stores that the Government let loose on the market. Also controlled prices were still the rule.

Then the Government control lifted, and industry began to get into its stride. Orders flowed in from all parts of the world from people eager to replenish stocks which had been denuded by the war. Every manufacturer had a long list of customers clamouring for early delivery. New

enterprises were started, and their capital over-subscribed almost before the ink was dry on the prospectus. This eager demand for goods was soon reflected in their prices, and we see the Index Number creeping up from 259 in March to 293 in July; then up to 335 in December, till finally it reached its summit level of 380 in March 1920. Again, when the working man saw the enormous (paper!) profits that were being made in all directions, and that the price of his daily necessities was climbing higher and higher, he began to press for an increased wage. The Coal Commission, the autumn railway strike, the lingering and disastrous moulders' strike will be fresh in the minds of our readers. And every time a fresh wage demand was granted, it meant an increase in the cost of production; so that even if the manufacturer wished to reduce the price of his products, he found himself unable to do so. Finally, the Government still found itself unable to make revenue meet expenditure, and had to have recourse to further inflation. We see that the floating debt only sank from 1487 millions in November 1918 to 1312 millions in March 1920, although the Government had meanwhile raised an additional loan of 769 millions. Similarly the paper money (in the true sense of the term, as shown by the fiduciary portion of the currency note issue) increased from a circulation of 266 millions in November 1918 to a circulation of 301 millions in March 1920. At the end of 1919 the Government were so scared that they imposed an arbitrary limit of 320·6 millions on the fiduciary portion of the currency note issue. But for the Government to do this without reducing their expenditure to a point within the taxable capacity of the nation is as futile as King Canute ordering the tide to go back.

By the spring of this year the profits made in industry had become notorious. Manufacturers themselves recognised that they were unhealthy; the public were suspicious, and labour was, metaphorically speaking, up in arms. Moreover, many of these profits came from our Allies, and our Allies had their own profiteers at home; so the result of this position was reflected in the foreign exchanges. The New York rate sank to $3·19, and the Paris rate rose to

fr. 67·67 to the £. At the same time Egyptian cotton (Sakellaridis) rose to the unheard-of price of 99 pence per lb., and wool, as shown above, to 166 pence per lb. The British Government were enforcing a Profiteering Act at home, and selling coal at £10 per ton on the Continent.

Then the break came. Europe needed our goods; yes, needed them with a hunger too great to be described. But she was beaten by our high prices and her depreciated exchanges. We had the goods, and could find nobody who could afford to buy them. There, in simple words, lies the tragedy.

The break was gradual, and at first was unnoticed. It was hastened, it is true, by the action of the Government in raising E.P.D. to 60 per cent. in April. But this was due to Government extravagance at home, and Europe was broken by the war and by Government megalomania and extravagance abroad. The remainder of the story is soon told—that is in so far as the story is complete.

By the close of the summer the manufacturers were convinced that the world would not, or rather could not, pay their prices. They had their warehouses filled with goods that Europe needed desperately, but could not buy. The banks were clamouring for the repayment of the money that the manufacturer had borrowed to manufacture these goods. The manufacturer had paid out all his spare money to the Government as E.P.D., and between these factors he saw himself faced with ruin. In some cases ruin came. In many more cases the factories partially closed down and worked short time. Thus thousands were thrown out of employment and left to walk the streets. In the iron and steel trades the prices still increased. But this was due to the cost of production, and production costs in the iron trades mainly depend on the price of coal. Now coal and food are the last things an impoverished people can do without, and they will pay any price in order to obtain them. Again, food-stuffs were in the hands of the governments, and coal was in the hands of the British Government and the British miner. So the coal-profiteering continues—while Europe is perishing.

We see the position as it is to-day—it is plain in the table at the head of this section. Europe is dying for lack of our goods, but Europe cannot produce the goods she must if she is to pay for ours. We cannot take payment in paper money, or indefinite promises to pay. So our export trade is going, and our industries are dying. Our men are being thrown out of work, and are left to exist as best they can. That is what the decline of Europe means to us, and this is only the beginning. What will be the end ? Can our Industrial System survive ? And, if not, what can be a substitute for it in the short time at our disposal ?

XI

THE SITUATION TO-DAY

A DYING CIVILISATION

THUS we are faced with the most tragic position it is possible to envisage. The industrial system into which we were born and in which we have passed all our lives is shattered. Europe, with a population it cannot feed, is no longer able to continue along the old lines by which it was able to support that population. Month by month the situation drifts from bad to worse, and civilisation slips like a worn-out coat from the backs of the starving populations. In Russia man already appears to have returned to a state of primitive barbarism. In Austria, Poland, and Hungary the same conditions are gradually developing. Absolute starvation is slaying thousands with relentless hand. What is the once proud city of the Tsars to-day? Petrograd is passing as Nineveh has passed. In Odessa there is neither food nor fuel; murder and slaughter has become so common that people have ceased to gasp with horror at its daily occurrence. In Vienna the children are dying in hundreds; the people have ceased to riot, and the ever Grim Destroyer steals silently and slowly westward.

One by one the exchanges fall, till it becomes increasingly difficult for these wretched countries to buy anything. Reconstruction in Poland is already practically impossible; factories cannot be repaired, raw materials purchased; railways restored. How can food even be bought? Russia has none to send, even if she would, and with the Polish mark worth ·4 of a cent, how can she purchase anything from America?

Month by month the same relentless fate is crushing the life out of the other Continental powers. Each new purchase depresses their units still further and compels them to pay more or buy less next time. Each consignment of goods they dispatch to pay for their purchases is worth less in proportion ; credits are already becoming impossible, and so slowly the machine is running down.

To Great Britain and the U.S.A. this collapse of their former markets presents problems almost as grave, though the results will take longer to come to full effect. If Europe cannot sell, she cannot buy. Already Great Britain is finding it increasingly difficult to sell her manufactures to the Continent. Practically no British boots, for example, are being sold to the former belligerent countries, and in consequence business is almost at a standstill, while unemployment is rife. The same stagnation is spreading in other industries, and firms which sold earlier in the year and accepted foreign units find that the " money " they received has sunk in value, till, if they withdraw now, they would lose huge sums. Therefore they are leaving them on deposit, hoping that these units will rise. One day they will make up their minds to " cut their losses " and withdraw these deposits, and this will mean a further fall in the rates.

And all the time the printing presses are grinding out more paper money, the governments are piling up further debts, while prices rise and discontent grows.

One by one our former customers are going bankrupt; and in that case to whom can the U.S.A. or Great Britain sell ? America can feed herself still ; to her, export trade is almost a luxury ; but we cannot raise food enough for our huge population. To us a large export trade is not a luxury but a necessity, and without it we cannot live. Can we find new markets to replace our old ? Can we reorganise ourselves to suit the changed conditions ? Shall we transport our population overseas not by hundreds or by thousands but by millions ? These are the vital questions of the day, but as yet no statesman appears to have even thought about the matter.

XII

FEARS OF "DUMPING"

At the present time there is a widespread fear of "dumping," which will cause our factories to close and unemployment to increase.

The writers believe that this fear is largely unsupported by concrete facts. In other words, a manufacturer is told by a wholesaler that he cannot buy his goods, for he can get them from Germany (it is usually Germany, as she is naturally unpopular just now) at one-third of the price he is asking. He then adds that this is possible owing to the low value of the mark, for he can get 250 marks' worth of goods for every British pound he pays. Now, we doubt whether there is any evidence that, except in one or two cases, German goods are arriving in this country in such tremendous quantities as to constitute a serious menace to any well-established British industry. We hear a lot about toys, but even two or three million pounds' worth of toys in a year from Germany is not a very serious matter. If the Germans do not export, they cannot live, and no one will *seriously* contend that toys constitute a key industry, though even this has been suggested by some "enthusiasts." It may be that some of our factories may have to close; but if their owners had not charged such exorbitant prices during the war and had produced better toys, they would not be in their present panic. Let us face the facts: if we will not take German toys or anything else, then we cannot sell anything in our turn to Germany, who was one of our biggest customers in pre-war days.

British business men have been keen enough to sell to

Germany as soon as they were allowed; patriotic zeal did not prevent them taking German marks. Let us be logical.[1]

But we must not suppose, for one moment, that only Germany can dump goods because of a depreciated exchange. Indeed, there is not a single belligerent country who cannot theoretically do likewise.

Theoretically, note; but what is the truth about the matter? Most of the agitation is based on fear of what may be and not on what has happened. Unfortunately, unthinking people are easily stampeded, particularly when they do not know all the facts. One manufacturer finds that his wholesaler (who in reality has overstocked at inflated prices) says he can get similar goods from Germany at one-third the price he is asking. Business is already bad, and this seems to him the last blow; perhaps he loses heart, closes down, and turns his unfortunate employees into the streets, giving as his reason that he cannot compete against "dumped" German goods. At once our agitation is started.

At the same moment another big firm buys German goods, which it uses in its process, and sells its finished product at a good profit. The second is able to keep his factory open because he can sell at a price people can still afford. These are facts, not theories; but whereas the first man shouts from the housetops, the second thinks it wise not to mention it.

The truth of the matter is, people are still thinking in terms of our pre-war economy. Even in those days it was difficult for Germany to crush a well-organised British industry; to-day Germany cannot do it. If the Continent started pouring goods into England at low prices because of her depreciated exchanges, the economic laws would soon force these exchanges up to a respectable figure and so deprive them of their temporary advantage. This is the natural effect of a low exchange; but an instant's thought would have shown that in most lines these countries must

[1] From January 1919 to 30th September 1920 we sold to Germany £37,000,000 worth of goods more than we bought from her!

buy their raw materials in their depreciated units and must also feed their workmen with food bought at the same ruinous rate. To get a little "ready money" they might, for a short time, in desperation, sell below cost, but they have not the credit which would enable them to do so for long. In short, what we are now being asked to do is to add one last crime to all the others we have committed against the basic laws of our industrial system.

Let us not beat about the bush. Countervailing duties could not be restricted to one class of goods or one country. The demand is for countervailing duties to "rectify" the depreciated exchanges. Indeed, last year's anti-dumping Bill contained such a clause, and it covered all countries with depreciated exchanges. Have those who advocate such a plan really worked out what these duties would mean? We venture to think if they had they would never have gone further in the matter.

Let us take the figures for the 11th November, and we find that with the franc at 58·37 an *ad valorem* duty of 131 per cent. must be imposed. Italy having a rate of 98·87 would have to pay a duty of 292 per cent. on everything she sent to us. On a sixpenny tin of sardines from Portugal our working classes would have to pay a duty of over 2s. 6d., or 505 per cent.

If we turn to Bohemia, supposed to be a friendly nation whom we have called into existence, we find we must hamper her exports to us with a duty of 1232 per cent., for on that day her kroner stood at 320 to the £.

When we turn to our old enemy, Germany, we find her mark, once worth nearly 1s., was on the 11th November worth less than a penny, or 297·5 to the £. To encourage her to export in order to make reparation, we must clap on an import duty of 1356 per cent.!

Starving Austria, trying to pawn her art treasures for corn, finds that the few miserable exports she has managed to export to us to pay for the bacon we are sending, which we don't like, must pay a duty on these exports of 4896 per cent.; but when we turn to our ally, Poland, who we are

told by the very people who are now clamouring for this policy, was the last bulwark against Bolshevism, we find anything that reaches us from her must pay an *ad valorem* duty of 6263 per cent.[1]

Surely such a tax as this would be a nightmare to the wildest protectionist, and convince even him that such a scheme is impossible.

But the further we examine it, the more impossible it becomes. (1) We must set up a complete tariff wall against every article which can come from the Continent. (2) That tariff must shift from day to day, or at least week to week, for not one of the duties which are given above for the 11th November were correct for the 18th, and the more depreciated an exchange is the more it fluctuates. (3) Thus a huge and expert Customs staff must be set up just at a time when economy is essential. (4) The tariff would increase in proportion to the decreasing goods which were imported, thus enabling home producers to keep raising their own prices inside the wall. (5) In a few weeks there would be no revenue derived from this monstrous tariff, while a gigantic expenditure would be created, not only for the salaries of the Customs officials, but also for the additional coastguards who would be needed to stop smuggling.

Think, my reader, if you could smuggle £100 worth of Polish goods into this country, you could add on a profit of 4000 per cent. and still offer them at such an attractive price as would ensure their selling quickly. You could retire into respectability on a fortune on that one transaction.

These are some of the practical difficulties, but the real objection to the whole scheme is that it is nothing less than a crime against civilisation.

Yes, a crime, and the last crime we should ever be permitted to commit, for it would utterly destroy Europe.

This action would at one stroke shatter what remains of the credit of dying Europe and render her recovery

[1] On 23rd December the duty would have been about 10,000 per cent.

utterly impossible. The imports from these countries to us would cease, and therefore our exports to them. We should at last create a real League of Nations, but it would be for war and not for peace, and that war would be against us. If men must die, they may as well die fighting.

Moreover, in damaging the Continent we should damage ourselves, and by destroying our export trade we should automatically close all our factories instead of assisting a few to remain open. Remember that the very industries in this country which complain that they are threatened must be those on which the Continent can still export in fair quantities. The "dumping industries," therefore, must help to bear the burden of those who cannot export at all. Usually it will be found that they are industries in which the raw material is small or obtainable locally—for example, wooden toys. They give work to large numbers who must eat imported food. The great basic industries of Great Britain are not of this nature. The heavy iron and steel trades, the wool and cotton industries, whether in England or Germany, must import their raw materials, and need *coal*.

Finally, why should not America follow suit and impose a similar duty on our imports to raise our prices to the figure they would have been if our rate of exchange had been at par? Such a duty on 11th November would have stood at 44 per cent. *ad valorem*, in addition to the heavy duties that our goods must already pay.

In truth, countervailing duties run clean contrary to the fundamental laws of our present economic system. These depreciated currencies are due mainly to the fact that the Continent already cannot export sufficient quantities of goods to pay for what she has to import, and with winter coming on her balance of imports must rise.

Because Europe cannot export enough, our agitators would prevent her exporting at all. How differently is "Protectionist" Canada acting! Quite recently she has evolved an ingenious method by which countries with depreciated currencies (our own included) are assisted to

export to her, not hindered; and New Zealand and Australia have adopted a similar system.

Thus any action of this nature would mean death to Europe, closed factories, unemployment, and high prices in England. It would be a splendid scheme for a Bolshevik government to put in force, for it would be the quickest method possible by which to bring the whole industrial system to the ground.

It may be that we cannot help Europe to recover, but it is not for us to help to slay her.

Note.—From January 1919 to September 1920 we sold to the war-stricken countries of Europe £658,750,000, and only imported £239,500,000 worth—so much for dumping.

XIII

CAN THE INDUSTRIAL SYSTEM BE SAVED?

FROM what has been written it should be clear that unless drastic steps are taken the industrial system on the Continent will collapse. Moreover, if it does, Europe cannot support half its present population. What is to happen to them? The hungry hordes cannot march overland to people the empty spaces of the world, for, save in the East, they are surrounded by sea. In the East is a land laid waste by savage civil war, and the only organised elements there are those composing the Red Army. This army is composed of men made desperate by hunger, who already are gathering along the frontiers of Poland like a pack of hungry wolves, only waiting for the first sign of weakness to pour westward in the hope of wresting food from their less primitive neighbours.

Westward lies the Atlantic; and how many ships would be required to carry away the starving millions when the crash comes? Southward is the Mediterranean, and beyond it, for the most part, desert, though in Morocco and Algiers a few more millions could find resting place.

What alternatives are possible? Bolshevism is so far the only concrete policy which has appeared. From our point of view this remedy is worse than the disease. Let us be clear on this point—the Bolsheviks appear to be following out ruthlessly a carefully thought out policy. They aim at reducing life to a more simple basis, and to do so realise that on their lines even Russia cannot support its pre-war population. Therefore they are mercilessly depopulating it, utilising the opportunity to destroy all who

might possibly attack their system. Only on this basis can we explain their slaughter of children. Even in the Terror of France children were not guillotined; they were handed over to "good Republicans" to be brought up as supporters of the new system. In most cases there seems no reason why Lenin should not have done the same in Russia. Children of seven can be educated to accept any ideas, however fantastic. If, however, the Bolshevik autocrats have come to the definite conclusion that under the Communist system a large population cannot be maintained, then we can understand the reason for their horrible atrocities.

It is impossible to believe that these things are not done according to plan. The man who could create an organised army when the old one had perished, and can compel workmen to work twelve hours a day, could have prevented most of these atrocities committed by his troops.

Bolshevism will not enable Europe to support its present population; on the contrary, it will increase its miseries and multiply the horrors of the decay of the old system. Nevertheless, we must not ignore the possibility of Bolshevism seizing the opportunity given by the collapse of the industrial system, or even hastening its final downfall. Bolshevism is the gospel of despair, but it only comes when it is too late to save a country. It is men driven mad by hunger and misery, who break out into murder and rapine. Nor are signs lacking that it is making headway on the Continent. It failed after a fierce struggle in Germany, but it has only been driven underground. We know that the present German Government is printing marks at the rate of a milliard a week. Lenin did the same thing with the rouble, avowedly in order to destroy the value of money, and with it the capitalist system. Meanwhile, the German people are working like slaves to produce goods with which to purchase food, but they cannot for long keep pace with the inflation of their currency and the debts they must pay, on which interest is accumulating.

In Italy one-fourth of the town councils are in the hands

of the Communists, who are requisitioning money and houses at their own sweet will, while the recent outbreak, when the workers seized the factories, was only partially crushed.[1]

In Barcelona conditions go from bad to worse; while in Hungary a White Terror has succeeded the Red Terror of Bela Kun. You will notice that there are no quotations for Hungarian currency. This gives us some insight into conditions there.

In Turkey, Kemel Pasha has entered into alliance with the Russian Soviet; while there have been outbreaks in Rumania and Bulgaria which, like the abortive attempt in Switzerland, have been suppressed.

Even in Great Britain, the stablest country in Europe, there are unpleasant indications of Bolshevik penetration; while in India and Egypt the influence of the events which have taken place in Russia cannot be ignored. Portugal, too, is a hotbed of social discontent; while in Ireland, though there does not seem to be any direct Bolshevik movement, the present terrible condition of anarchy is almost as bad as if there were. Ireland, indeed, shows us the spirit of lawlessness and hate which elsewhere is associated with Communism connected with Nationalism; but by whatever name we call it, this spirit is the enemy of our system of civilisation.

The saner members of the Labour Party in England, instead of addressing meetings denouncing the present industrial system, should be formulating a new one to take its place. We suggest that it is more than possible that they are "beating a dead dog," and that their old enemy, if not yet dead, is rapidly dying. The old system fed us, and those who thought it evil should seize the opportunity and begin to build up now a new one parallel to the old. If the house we live in is crumbling, should we not set to work to build a fresh one, into which we can move before the other collapses and leaves us naked to the elements?

If our reading of the signs is right, Collectivist Socialism is impossible, because, with the collapse of the industrial

[1] See *Daily News*, 25th November 1920.

system, State industrialism is likewise doomed. The only alternative is Guild Socialism, and this does contain within itself the seeds of a system which might meet the new conditions under which we should have to live; but it is useless to start such a system with the theory that Guildsmen will at once be infinitely better men than the present average person. The Guild Socialists must start with human nature as it is, and must face and deal with the gigantic problem of feeding our huge population without practically any export trade.

Let us face the facts. The writer does not go so far as to say that the present industrial system cannot be saved, but he does say that unless prompt action is taken the system must collapse. If, however, our leaders continue to copy Mr Micawber and let things drift, in the hope that something will turn up, then the recovery of Europe will be impossible. The collapse will no doubt come slowly and entail many years of suffering before it is completed, but that very fact gives us a chance of doing something either to avert it, or, if that is impossible, to ameliorate the disaster—but while everyone conspires to ignore the possibility nothing will be done. The collapse of our industrial system, if no substitute is provided, means the end of our civilisation; surely enough has been written in these pages to prove this.

But when a civilisation is doomed, certain other warnings are given, though, as a rule, few take notice of them. The main indications are—

(*a*) In Art, a decadence sets in. Compare the late Byzantine art with the art of Classical Greece and see the unnatural attitudes and faces of the figures, and then turn and study the work of our futurists, cubists, and vorticists, and similar exponents of the new art. Art reflects the spirit of the age. The naïve and childish drawings of the Middle Ages depict its youth. The realistic pictures of Raphael show an age which rejoiced in life and in the study of man. The dull respectability of mid-Victorian art mirrored forth the characteristics of

the age. The " Dadaists " foretell the end of an effete civilisation, from the ashes of which may some day arise a better and nobler one.

(*b*) The profligacy of the decadent Romans has become proverbial, but to-day most thoughtful men must feel troubled at the spread of blatant immorality. In England it still lurks underground, save when some scandal brings it to light; but from Berlin come tales of open debauchery, which, unless they are but a passing phase, can mean but one thing.

Even here, in London, most of us must have realised that the old moral code is being undermined. Whether it be the conduct of quite young girls, which may be charitably ascribed to the excitement caused by the war, or the more serious demands for the recognition of the " Right to Motherhood," we find indications of a spirit of revolt against the social basis on which till now our civilisation has rested.

(*c*) The extravagance, fast living, and aimless search after empty, if not vicious, pleasures, which we see everywhere at a time when nearly half our fellow-men are suffering bitterly, is another indication not unconnected with the last one.

(*d*) At the same time, not only among nations, but amongst individuals, we find a spirit of selfish lawlessness which, if continued, will dissolve organised society. It is not merely the terrible scenes happening in Ireland, or the outbreak of crimes of violence here which establish this. These might be the effect of the war, but something more deep-seated than this is required to explain the almost universal complaint that the rising generation are utterly devoid of discipline, obedience, or self-restraint. Since these will be the men and women of to-morrow, the outlook is ominous.

(*e*) The failing power of the established religions is

another sure sign of impending change. To-day the official Churches in the West, whether established or not, have lost their hold of the bulk of the people. Men no longer follow the faith of their fathers; but it would be wrong to think that those who turn from orthodox religion are necessarily blatant materialists. Indeed, in many cases they have heard the call of a new conception of the divine and are groping their way towards it. They dream of a new salvator and turn their faces to the East; but the old gods are dead, and to them they look no more.

Perhaps they are right, and the new faith must have a new civilisation more in keeping with it, for you cannot pour new wine into old bottles; but the breaking down of the old civilisation will be a bitter process. Mars, the war god, may yet have his work to do, but woe to those of us who stand in his path. Perhaps they are wrong, and those of us who hold the Christian faith are yet to see the fulfilment of our creed. But, if so, we must shake off our sloth, and unite in the service of our Master.

(*f*) Finally, we cannot ignore the extraordinary spirit of apathy, which is apparently the only alternative to lawlessness and wild revolt. It is not only in parts of Europe, where the very souls of men are being crushed out of them by physical misery, but even here, in England, we see it everywhere. Nothing seems to rouse them; they drift on from day to day, and nothing really matters.

Singly, these indications might be merely a passing phase; united, they become a formidable warning; but when coupled with the terrible economic situation their meaning becomes tragically plain.

Can our civilisation be saved? Can we yet save Europe? Or will our pleadings fall on deaf ears, and the apathy we have alluded to result in our readers throwing this book aside with a contemptuous shrug of the shoulders? Frankly,

we are not very hopeful. Prophesy to the people pleasant things, for if you do not they will laugh at you.

Can we save Europe? The player knows that a game is not finished till the last move is made; but to-day we play against the Queen of Darkness, and we cannot afford to lose a single pawn; yet we have thrown away several pieces.

XIV

IF EUROPE COLLAPSES, CAN GREAT BRITAIN SURVIVE?

If Europe can be saved, all will be well; but if she cannot, can we survive? This possibility should be faced. It is not pessimism to be prepared for the worst, but ordinary foresight.

We are in an infinitely better situation than the Continent, and our exchange rate shows it. There are many advantages we possess which they do not; but I do not propose to do more than indicate these, and the possible way out of the difficulties with which we shall be faced if we lose our Continental markets. My object in writing this pamphlet is to awaken the public to the seriousness of the position. If this succeeds, constructive proposals will follow either from myself or from others. If no one heeds, it is waste of time to suggest what must be done to save Great Britain, for these changes would, many of them, be unpleasant.

Our outstanding advantages are that we are an Empire, and I commend this fact to the attention of the Labour Party, who are inclined to ignore it. This means that we are a seafaring nation with access to vast raw material resources within our territories and great open spaces, ready to take our surplus population; for let there be no misapprehension—we shall find it exceedingly difficult, if not impossible, to feed our present population under these new conditions. Secondly, we are excellently placed, geographically, to act as the commercial centre between America and what remains of Europe.

We must not, however, overlook the fact that we shall not be able to continue as the great industrial State we now

are. Our Colonies may continue to supply us with a certain amount of raw materials and take some of our goods, but neither in sufficient quantities to enable us to continue as at present.

Already our self-governing dominions are beginning to develop their own industries and utilise their own raw materials, and this process in any case will continue, while, if Europe collapses, the process will be hastened.

Even if India remains within the Empire, she will tend to become a great manufacturer of cheap goods, supplying at least her own needs and competing with us for raw materials.

Therefore we must prepare for emigration on a vast scale. Already we are witnessing a new development which is the forerunner of a huge movement. How many ex-service men have we met lately who have said, "I'm emigrating: not only can I see no prospects for myself, but I can see none for the old country."

The possible remedies therefore include the following:—

1. A really heroic effort to repopulate the country by distributing a large section of the population over the countryside, and enabling them to raise from the soil the necessities of life. Such an attempt will necessitate drastic changes, many of which will be strenuously opposed by vested interests; but it must be done. No half-hearted efforts, such as taxing land values, will serve. Men must be planted on the land with their families on farms sufficiently large to keep them, but without being huge estates. We need in England peasant proprietors such as are the backbone of France.

2. We must organise emigration, and instead of letting a few enterprising men go out alone to succeed or fail, organise properly constituted communities with agriculturists, craftsmen, doctors, and other useful members of society.

3. We must also recognise that in commerce rather than industry we must employ the rest of those who remain. Our ships may continue to carry the goods of other nations; and this brings us to the probable fate of the Continent if her industrial system cannot be saved.

What will happen to the surplus population is best left unsaid, but after that population has been reduced to the number which the agricultural wealth of Europe can support, we shall find that a more primitive and perhaps healthier life will arise. Europe will become an agricultural area with simple crafts, and will be back once more in the same position she occupied before the industrial system developed.

It seems not impossible that the centre of trade will once more have shifted westward. From the Eastern Mediterranean it shifted to the Baltic, from the Baltic to the Atlantic, and, moving once more westward, it would pause in the Pacific Ocean, when Chinese, Japanese, Australian, and American would struggle for the commercial supremacy of the world.

If this prospect does not satisfy us, then we must immediately devote our energies to reorganising the Continent and setting its industrial system once more on its feet. Alternatively, if we decide that these things must come to pass, it is time we were at least beginning to lay our own plans. You cannot feed 45 millions if your export trade has practically ceased, nor shift over half that number in boats when starvation is upon them. Perhaps I am wrong. Perhaps our civilisation and our industrial system are destined to last for ever. If so, the labour agitators are working in vain, but—

LOOK AT THE RATES OF EXCHANGE.

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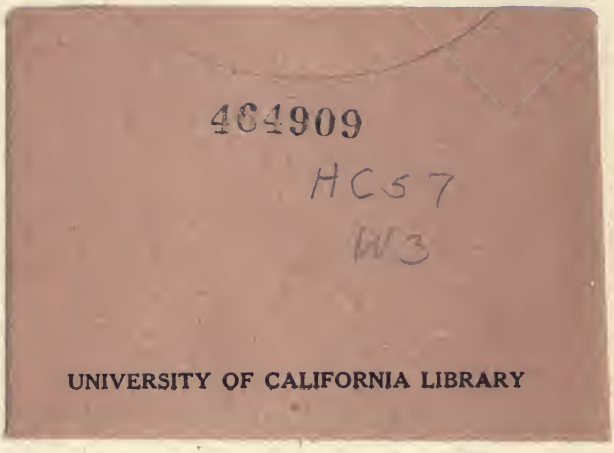
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